Appendix C

Background

Complainant

Complainant SKF USA, Inc. ("SKF USA") is a corporation organized and existing under the laws of the state of Delaware, with its headquarters located at 1111 Adams Avenue, Norristown, Pennsylvania 19403. In addition to its headquarters, SKF has bearing manufacturing plants, service centers, warehouses and distribution centers in several U.S. states. SKF markets, sells, repairs, services and distributes in the United States bearings that are manufactured by SKF in the United States, as well as bearings that are imported into the United States from foreign manufacturing units ("MUs") that are affiliated with SKF by virtue of a common parent, AB SKF, a publicly traded company incorporated under the laws of Sweden. AB SKF, SKF USA and the MUs are referred to collectively as the "SKF Group."

Respondents

Respondent Bearing Distributors, Inc. ("Bearing Distributors") is a corporation organized and existing under the laws of the state of North Carolina with its headquarters located at 930 South Stadium Road, Columbia, South Carolina 29202. Bearing Distributors is a wholesaler of industrial supplies in the United States, specializing in bearings and electrical power transmission parts.

Respondent Bearings & Motive Specialties Company, Inc. ("BMS") is a corporation organized and existing under the laws of the state of New York with its principal place of

business located at 90 Westmoreland Avenue, White Plains, New York 10606. BMS is an importer and wholesaler of bearings in the United States.

Respondent Bearings Limited ("BL") is a corporation organized and existing under the laws of the state of New York with its principal place of business located at 20 Davids Drive, Hauppauge, New York 11788. BL is an importer and wholesaler of bearings in the United States.

Respondent Bohls Bearing & Power Transmission Service ("Bohls") is a corporation organized and existing under the laws of the state of Texas with its principal place of business located at 211 Probandt, San Antonio, Texas 78204. Bohls is a wholesaler of industrial bearings and power transmission supplies in the United States.

Respondent Creswell Industrial Supply, Inc. ("Creswell") is a corporation organized and existing under the laws of the state of Tennessee with its principal place of business located at 6125 Airways Boulevard, Chattanooga, Tennessee 37422. Creswell is a wholesaler of industrial supplies, including bearings, in the United States.

Respondent CST Bearing Company ("CST") is an unincorporated entity and/or sole proprietorship with its principal place of business at 2115 S. Santa Fe Street, Santa Ana, California 92705. CST is an importer and wholesaler of industrial supplies, specializing in bearings, in the United States.

Appendix C

Respondent Gulf United Industries, Inc., d/b/a United Bearing Company ("Gulf") is a corporation organized and existing under the laws of the state of Delaware with its principal place of business located at 675 S. Royal Lane, Coppell, Texas 75019. Gulf is an importer and wholesaler of bearings in the United States.

Respondent McGuire Bearing Company ("McGuire") is a corporation organized and existing under the laws of the state of Oregon with its principal place of business located at 947 S.E. Market Street, Portland, Oregon 97214. McGuire is an importer and wholesaler of bearings and power transmission equipment in the United States.

Respondent Motor Bearing Supply, Inc. ("Motor Bearing") is a corporation organized and existing under the laws of the state of Texas with its principal place of business located at Rt. 1, Box 679, Jasper, Texas 75951. Motor Bearing also maintains an "eBay store" by the name of "Bearingking's Bearings" on eBay's auction website. Motor Bearing is an importer and/or retail seller of electric motors and bearings in the United States.

Respondent RF Wolters Company, Inc. ("Wolters") is a corporation organized and existing under the laws of the state of Georgia with its principal place of business located at 4585 S. Berkeley Lake Road, Norcross, Georgia 30071. Wolters is a wholesale distributor of electric motors and bearings in the United States.

Respondent Representaciones Industriales Rodriguez, S.A. de C.V. ("RIRSA") is a corporation organized and

existing under the laws of Mexico with its principal place of business located at Av. Dr. I. Morones Prieto 3150 Ote, Monterrey, NL, Mexico. RIRSA is an importer, exporter and distributor of bearings in the United States.

Respondent Ringball Corporation ("Ringball") is a corporation organized and existing under the laws of Canada with its principal place of business located at 2160 Meadowpine Boulevard, Mississauga, Ontario, Canada L5N 6H6. Ringball is a wholly-owned subsidiary of a Lichtenstein corporation called Etablissement Trican. Ringball is an importer, exporter and/or distributor of bearings and power transmission products in the United States.

Respondent RitBearing Corporation ("RitBearing") is a corporation organized and existing under the laws of the state of New York with its principal place of business located at 14500 Lochridge Boulevard, Covington, Georgia 30014. RitBearing is an importer and wholesaler of bearings in the United States.

Respondent Seal Pack Corporation ("Seal Pack") is a corporation organized and existing under the laws of the state of Florida with its principal place of business located at 8502 N.W. 66th Street, Miami, Florida 33166. Seal Pack is an importer and wholesaler of replacement parts, including bearings, in the United States.

Appendix C

Trademarks at Issue

SKF USA asserts four registered trademarks against Respondents that identify the products SKF USA manufactures and sells. They are as follows (together with an identification of the physical exhibits constituting certified copies of each mark that have been admitted into the record):

Appendix C

Mark	Registration No.	Date	Exhibit No.
SKF (Stylized thin font)	502,839 ("the `839 mark")	October 12, 1948	CPX-299
SKF (Stylized block font)	502,840 ("the `840 mark")	October 12, 1948	CPX-300
Blue, red, white design	1,944,843 ("the `843 mark")	January 2, 1996	CPX-301
SKF logo (design & letters)	2,053,722 ("the `722 mark")	April 22, 1997	CPX-302

Appendix C

The '839 and '840 marks cover the "SKF" name in varying stylized forms ("SKF registered word marks"), as follows:

TRADEMARK
PRINCIPAL REGISTER

SKF

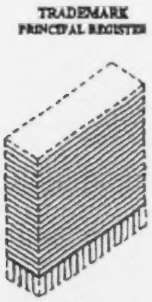
'839 Mark

TRADEMARK
PRINCIPAL REGISTER

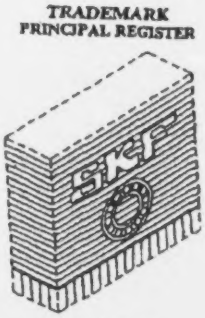
SKF

'840 Mark

The '843 and '722 marks cover the distinctive blue, red and white design and SKF logo, respectively ("SKF registered design marks"), as follows:



'843 Mark



'722 Mark

Under Section 15 of the Lanham Act, the right of a registrant to use a federally-registered trademark in commerce for the goods and services on or in connection with which the mark has been in continuous use for five consecutive years following registration and is still in use is generally deemed to be incontestible, provided that an affidavit of such

use is filed with the U.S. Patent and Trademark Office ("PTO") within one year of the expiration of the five-year period. 15 U.S.C. § 1065. When a trademark has become incontestible in this manner, the registration of that trademark constitutes conclusive evidence of the validity of the registered trademark and of its registration, of the registrant's ownership of the trademark, and of the registrant's exclusive right to use the registered trademark in commerce. 15 U.S.C. § 1115(b). SKF USA represented in its Complaint with regard to the '839, '840 and '843 marks that they are incontestible because SKF USA has filed the required affidavits with the PTO and all other requirements of Section 15 of the Lanham Act have been met. *See* Complaint, ¶ 31. With regard to the `722 mark, SKF USA represented at trial and in its initial post-hearing brief that it is in the process of filing the papers necessary to make that mark incontestable. Hearing Tr. 5515:16-23 (January 13, 2003); CIB 4 n.2.

SKF USA also asserts common law trademark rights in the word "SKF" ("SKF common law word marks") that is encompassed within the SKF registered word marks and in the designs ("SKF common law design marks") that are encompassed within the SKF registered design marks. The SKF registered word marks and common law word marks are hereafter referred to collectively as the "SKF word marks," and the SKF registered design marks and common law design marks are hereafter referred to collectively as the "SKF design marks." The SKF word marks and SKF design marks are hereafter referred to collectively as the "SKF trademarks."

Appendix C

All of the accused bearings of Respondents are etched with at least one of the SKF word marks, and the packaging and labels for the accused bearings often contain at least one of the SKF word marks or SKF design marks.

Currently, SKF USA does not license the SKF trademarks at issue to anyone for use in connection with the sale of SKF bearings in the United States.[4] However, SKF USA permits its authorized distributors to sell authorized SKF bearings purchased from SKF USA under the terms and conditions of contracts between the distributors and SKF USA.

Products at Issue

The bearings at issue include, without limitation, ball bearings, spherical roller bearings, cylindrical roller bearings, needle roller bearings, tapered roller bearings, spherical plain bearings and plain bearings. Of these, two types of bearings are at issue in this investigation: (i) bearings that are manufactured abroad by foreign SKF Group MUs and imported into the United States without the consent of SKF USA (referred to as "gray market SKF bearings"); and (ii) bearings that are manufactured abroad by companies other than those in the SKF Group and are subsequently passed off as authorized SKF bearings (referred to as "passed off SKF bearings").

4. From 1999 to 2002, SKF USA and RBC/Tyson Bearing Company ("RBC") were parties to a trademark licensing agreement. The agreement was a temporary arrangement meant only to facilitate the sale of a SKF USA facility in Glasgow, Kentucky to RBC. CRB 70-71. The evidence of record contains little beyond the licensing agreement itself and is therefore not dealt with herein. *See* RX-0541C.

Appendix C

JOINT NARRATIVE STATEMENT OF ISSUES

On December 4, 2002, after pre-hearing briefs were filed, Complainant, Respondents and Staff submitted a Joint Narrative Statement of Issues ("JNSI") to be heard and decided. The issues set forth in the JNSI are as follows:

Issue I: Trademark Infringement

Issue I.A: SKF USA, Inc. Trademarks

Issue I.A. 1: Whether the SKF trademarks are valid and owned by SKF USA?

Issue I.A.2: Whether Complainant has the legal right to determine who has the authorization to import and/or sell SKF trademarked products in the United States?

Issue I.A.3: Whether the importation and/or sale by Respondents of imported bearings and/or packaging displaying the SKF trademarks at issue, constitutes a violation of section 1337 (*sic*) of the Tariff Act of 1930, as amended ("Section 337")?

Issue I.B: Material Differences

Issue I.B.1: Whether the proper basis of comparison for material differences purposes is limited to that of Respondents' operations to Complainant's operations, or whether such comparisons should encompass a broader comparison of Respondents' operations to Complainant's authorized distribution channels?

Appendix C

Issue I.B.2: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on "physical differences"?

Issue I.B.3: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those sold imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in quality control, such as post-manufacturing quality control — including sources of supply, quality control systems, shelf-life standards, and warehousing controls?

Issue I.B.4: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in technical and engineering support?

Issue I.B.5: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in packaging and labeling standards?

Issue I.B.6: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those imported, sold or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in warranties?

Appendix C

Issue I.B.7: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from the bearings imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in product recalls?

Issue I.B.8: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from the bearings imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in marketing materials?

Issue I.B.9: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from the bearings imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in the issuance of certificates of origin and other certifications?

Issue I.B.10: Whether as a matter of law, a trademark owner can prohibit the importation of trademarked products if the products are produced by the trademark holder's affiliated commonly-controlled manufacturing units and if the products are physically identical to the products that the trademark owner imports, sells, and offers for sale in the United States market?

Issue I.B.11: Whether the operations of non-party entities demonstrate material differences between the bearings imported, sold, or offered for sale by these entities and those bearings imported, sold, or offered for sale by Complainant (and/or its authorized distribution network)?

Appendix C

Issue I.B.12: Whether any of the alleged material differences between the products imported, sold, or offered for sale by Complainant and the products imported, sold, or offered for sale by the Respondents actually cause customer confusion in the U.S. marketplace?

Issue I.B.13: Whether there exists confusion in the market place on a broader scale due to the sale of SKF branded products by non-authorized entities?

Issue II: Other Causes of Action

Issue II.A: Common Law Trademark Infringement: Whether the importation and/or sale by Respondents of imported bearings and/or packaging displaying the SKF trademarks at issue constitutes common law trademark infringement?

Issue II.B: False Representation of Source: Whether the importation and/or sale by Respondents of imported bearings and/or packaging displaying the SKF trademarks at issue constitutes false representation of source?

Issue II.C: False Advertising: Whether the importation and/or sale by Respondents of imported bearings and/or packaging displaying the SKF trademarks at issue constitutes false advertising?

Issue II.D: Dilution of the SKF Trademarks

Issue II.D:1: Whether the name-brand recognition of the SKF trademarks establishes the fame of the trademarks in the U.S. market place?

Appendix C

Issue II.D.2: Whether the actions of Respondents tarnish the SKF trademarks in the U.S. marketplace?

Issue II.E: Passing Off: Whether Respondents' importation and/or sale of SKF trademarked products constitutes "passing off?"

Issue III: Domestic Industry: Whether the operations of SKF USA in the United States constitute a domestic industry as required by section 337?

Issue IV: Jurisdiction: Whether Respondents have imported and/or sold imported bearings and/or packaging thereof displaying the SKIP trademarks, as required by section 337?

Issue V: Affirmative Defenses

Issue V.A: Equitable Estoppel: Whether the affirmative defense of equitable estoppel should serve to bar Complainant's claims?

Issue V.B: Laches: Whether the affirmative defense of laches should serve to bar Complainant's claims?

Issue V.C: Acquiescence: Whether the affirmative defense of acquiescence should serve to bar Complainant's claims?

Issue V.D: Unclean Hands: Whether the affirmative defenses of unclean hands should serve to bar Complainant's claims?

Issue VI: Injury: Whether Respondents' activities have caused or threaten to cause substantial injury to Complainant?

Appendix C

STIPULATED FACTS

At the request of the undersigned, SKF USA and Respondents have entered into eighteen stipulation agreements on the undisputed facts in this investigation. Individual paragraphs in those agreements make reference to exhibits in the record. The eighteen stipulation agreements are attached hereto as a "Stipulation Appendix."[5]

RELEVANT STATUTES, REGULATIONS, AND PRECEDENT

Section 337 in General

Section 337 of the Tariff Act of 1930, as amended, declares unlawful unfair methods of competition and unfair acts in the importation of articles into the United States, or the sale of such articles by the owner, importer, or consignee, the threat or effect of which is to destroy or substantially injure an industry in the United States. 19 U.S.C. § 1337(a)(1)(A). Section 337 also declares unlawful the importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946 (15 U.S.C. § 1051 *et seq.*, also known as the Lanham Act) if an industry in the United States relating to the articles protected by the registered trademark exists or is in the process of being established. 19 U.S.C.

5. Individual paragraphs of each stipulation agreement are referred to hereafter as "Jt. Stip. No. __, ¶ __".

§§ 1337(a)(1)(C) and (a)(2). Section 337 further provides that the Commission shall investigate any alleged violation of this statute. 19 U.S.C. § 1337(b)(1).

If the Commission determines as a result of such investigation that there is a violation of Section 337, it shall direct that the articles concerned, imported by any person violating the provisions of this section, be excluded from entry into the United States. 19 U.S.C. § 1337(d)(1). In addition to, or in lieu of taking such action, the Commission may issue an order directing such person to cease and desist from engaging in the unfair methods or acts involved. 19 U.S.C. § 1337(F)(1). In determining whether to issue an exclusion order or cease and desist order, the Commission must consider the effect of such actions upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers. 19 U.S.C. §§ 1337(d)(1) and (F)(1).

Jurisdiction

The Complaint alleges that Respondents have violated Subsection 337(a)(1)(A) and (C) in the importation and sale of bearings and packaging thereof that infringe the SKF trademarks and result in dilution of those trademarks. The Complaint also alleges that the unfair acts committed by Respondents in connection with the importation and sale of those bearings and packaging include false representation of source, false advertising, passing off, and unfair pecuniary benefits, the threat or effect of which is to destroy or substantially injure an industry in the United States.

Accordingly, the Commission has subject matter jurisdiction in this investigation. *See Amgen, Inc. v. U.S. Int'l. Trade Comm.*, 902 F.2d 1532, 1536 (Fed. Cir. 1990).

Further, several Respondents have responded to the Complaint and have participated in the investigation, thereby submitting to the personal jurisdiction of the Commission. *See Certain Miniature Hacksaws*, Inv. No. 337-TA-237, Initial Determination (unreviewed by Commission in relevant part) at 4 (October 15, 1986).

Gray Market Infringement of Registered Trademark

Generally, trademark rights are extinguished at the first authorized point of sale. The buyer at the authorized point of sale "receives an implied license to use the mark in resales." J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 25.41 (4th ed. 2001). Prior to *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923) ("Katzel"), "the prevailing rule in the United States was that the authorized sale of a validly trademarked product, anywhere in the world, exhausted the trademark's exclusionary right." *Gamut Trading Co. v. U.S. International Trade Comm.*, 200 F.3d 775, 778 (Fed. Cir. 1999) ("*Gamut Trading*"). However, beginning with *Katzel*, the "implied license" was re-defined as U.S. courts began to recognize the territorial nature of the "goodwill" associated with a trademark. This territorial concept of "goodwill" evolved to the point that:

> a trademark has a separate legal existence under each country's laws, and . . . its proper lawful function is not necessarily to specify the origin or

> manufacture of a good (although it may incidentally do that), but rather to symbolize the domestic goodwill of the domestic markholder so that the consuming public may rely with an expectation of consistency on the domestic reputation earned for the mark by its owner, and the owner of the mark may be confident that his goodwill and reputation (the value of the mark) will not be injured through the use of the mark by others in domestic commerce.

Osawa & Co. v. B&H Photo, 589 F. Supp. 1163, 1170-771 (S.D.N.Y. 1984).

As a result of the decision of the U.S. Court of Appeals leading to the U.S. Supreme Court's decision in *Katzel*, Congress enacted § 526 of the Tariff Act of 1922 which essentially codified the U.S. Supreme Court's decision in *Katzel* prohibiting the importation (into the U.S.) of foreign-manufactured merchandise bearing a U.S. trademark without the U.S. trademark owner's consent. Not prohibited from importation by the Customs Service regulations implementing *Katzel* were goods manufactured abroad by the trademark owner or its affiliate. 19 C.F.R. § 133.21(b) (1987). However, this "common-control" exception and the related "authorized-use exception" were subsequently found consistent and inconsistent, respectively, with § 526 of the Tariff Act. *K-Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988) ("K-Mart"). While § 526 of the Tariff Act, Section 32 of the Lanham Act, and §337 of the Tariff Act are three separate sections of U.S. Code (giving rise to three distinct causes of action), the territorial nature of a

trademark holder's goodwill (established in *Katzel)* is the fount from which trademark infringement cases are analyzed under all three Code sections. However, using this territorial based analysis for two of these sections, §§ 526 and 337, has resulted in two conflicting results regarding the applicability of the "common-control" exception to such cases, as reflected in the holdings of *K-Mart* and *Gamut Trading*, *supra*, respectively.

Accordingly, the authorized first sale of a trademarked good anywhere in the world may no longer exhaust a U.S. markholder's right to bar the subsequent importation and sale of a gray good into the United States. *See Gamut Trading*, *supra*, 200 F.3d at 778 ("stressing that the reputation and goodwill of the holder of the corresponding United States mark warrants protection against unauthorized importation of goods bearing the same mark, although the mark was validly affixed in the foreign country."). The Federal Circuit reasoned that:

> the consuming public, associating a trademark with goods having certain characteristics, would be likely to be confused or deceived by goods bearing the same mark but having materially different characteristics; this confusion or deception would also erode the goodwill achieved by the United States trademark holder's business.

Gamut Trading, *supra*, 200 F.3d at 779. Therefore, the court ruled that "the basic question in gray market cases concerning goods of foreign origin is not whether the mark is validly affixed, but whether there are differences between the foreign and domestic product and if so whether the differences are material." *Id.*

Appendix C

The term "gray market goods" refers to genuine goods that are manufactured abroad, bearing a legally affixed foreign trademark that is also registered in the United States, and, after being legally acquired abroad, are then imported into the United States for resale without the consent of the the U.S. trademark holder and in "derogation of arrangements lawfully made by the trademark holder to insure territorial exclusivity." *Societe Des Produits Nestle v. Casa Helvetia, Inc.*, 982 F.2d 633, 635 (1st Cir. 1992) ("Nestle"); *see also Gamut Trading*, *supra*, 200 F.3d at 778.

Enforcement of registered trademark rights falls within the purview of Section 32 of the Lanham Act, whereunder infringement of a federally-registered trademark occurs when any person, without the consent of the registrant, uses the mark in commerce, *i.e.*, selling, offering, distributing or advertising goods or services "in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive." 15 U.S.C. § 1114(1)(a). Accordingly, under the Lanham Act, the benchmark for trademark infringement is the "likelihood of confusion" test. *See Weiss Associates Inc. v. HRL Associates Inc.*, 902 F.2d 1546, 1549 (Fed. Cir. 1990) ("*Weiss Associates*").

In gray market cases, the "likelihood of confusion" test for trademark infringement is generally satisfied, and a violation of Section 337 proved, by evidence:

> that there are "material differences" between the accused imported products and the products authorized for sale in the United States. The existence of material differences creates a legal

> presumption that consumers are likely to be confused as to the source of the gray market product, resulting in damage to the markholder's goodwill.

Certain Agricultural Tractors Under 50 Power Take-off Horsepower, Inv. No. 337-TA-380, Commission Opinion at 6, 44 U.S.P.Q.2d 1385, 1389, 1997 WL 687372 (U.S.I.T.C., March 2, 1997) ("*Tractors*, Commission Violation Opinion"); *accord Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1301-02 (5th Cir. 1997) ("*Martin's Herend*"); *Nestle*, *supra*, 982 F.2d at 640.

In *Gamut Trading*, the Federal Circuit cited several instances in which the "material differences" test had been applied. *Gamut Trading*, *supra*, 200 F.3d at 779. One example given was *Nestle* wherein it was held that the foreign owner of the United States trademark "Perugina" and its Puerto Rican subsidiary, which imported Italian-made "Perugina" chocolate, could prevent the importation of "Perugina" chocolate made under license in Venezuela because the product was materially different in taste, raising the likelihood of consumer confusion and loss of goodwill and integrity of the mark. *See Nestle*, *supra*, 982 F.2d at 643. Another example given was *Original Appalachian Artworks v. Granada Electronics*, 816 F.2d 68, 73 (2d Cir. 1987), *cert. denied*, 484 U.S. 847 (1987) ("*Original Appalachian*,") where it was held that the United States owner of the "Cabbage Patch" trademark could prevent the importation of "Cabbage Patch" dolls that were made and sold abroad under license from the United States markholder on the grounds that the foreign dolls were materially different from

the dolls authorized for sale in the United States because their instructions and adoption papers were in the Spanish language. *Id.*

The standard of "materiality of differences" for gray market trademark infringement must be, in the words of the Federal Circuit, "suitable to considerations of consumer protection and support for the integrity of the trademarks of domestic purveyors, all with due consideration to the territorial nature of registered trademarks in the context of international trade." *Gamut Trading*, *supra* 200 F.3d at 778. In this regard, the Federal Circuit further stated in *Gamut Trading*:

> The courts have applied a low threshold of materiality, requiring no more than showing that consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product, for such differences would suffice to erode the goodwill of the domestic source. As explained in *Nestle*, "[a]ny higher threshold would endanger a manufacturer's investment in product goodwill and unduly subject consumers to potential confusion by severing the tie between a manufacturer's protected mark and its associated bundle of traits."

Gamut Trading at 779-80 (*quoting Nestle*, *supra*, 982 F.2d at 641).

Appendix C

A low threshold of materiality rule evolved from cases involving physically different products. Neither the Commission nor the Federal Circuit has applied the low threshold of materiality rule to a case involving physically identical products that are materially different only in the "bundle of special characteristics," *i.e.*, the type and/or level of bundled services, embedded in the price of the product at its point of sale. *Compare Nestle*, *supra*, 982 F.2d at 636.

Given the sparse Commission and Federal Circuit case law germane to the unique facts herein, one looks to analogous trademark case law outside this Circuit to discern how the law is to be applied. Where material differences involve "bundled services" sold with the product, the complainant must show the existence of consumer confusion at the point of sale regarding these "bundled services." But the differences in the level of bundled services tied to the trademark holder's product as compared to the allegedly infringing gray good must be differences "as to the efficacy of the goods to fulfill the U.S. consumer's reasonable expectations." *See Certain Alkaline Batteries*, Inv. No. 337-TA-165, Commission Action and Order at 25, 225 U.S.P.Q. 823, 834 (U.S.I.T.C., November 5, *1984) ("Batteries")*. And even then, such proof only creates a rebuttable presumption of "consumer confusion sufficient to support a Lanham Trade-Mark Act claim," which the respondent may rebut by a preponderance of the evidence "that the differences are not of the kind that consumers, on average, would likely consider in purchasing the product." *See Nestle*, *supra*, 986 F.2d at 636. Accordingly, trademark holders have the initial burden of persuasion and the ultimate burden of proof, where the quantum of proof required is a preponderance of evidence.

Appendix C

Trademark holders can satisfy this burden by proving material physical differences regarding the products themselves when compared to other products that "legitimately" bear the trademark. If, however, there are no physical differences, then the trademark holder must prove: (1) that the package of bundled services embedded in the product at its point of sale are "materially" different and that (2) "consumers would be likely to consider the differences in the levels of such bundled services between the foreign and domestic products to be significant when purchasing the product." *Gamut Trading*, *supra*, 200 F.3d at 779. It is this consumer determined "significance" that generates the presumed "erosion of goodwill." *See Gamut Trading*, *supra*, 200 F.3d at 779-80.

Despite the low threshold of materiality, not all "material" differences will result in an erosion of a trademark's goodwill. Material differences that are "blatant" cannot cause an erosion of goodwill because blatant differences would not confuse the reasonably prudent consumer. "Material differences," by contrast, are "subtle differences, for it is by the subtle differences that consumers are most easily confused." *See Nestle*, *supra*, 982 F.2d at 641. Therefore, it is the burden of the trademark holder to traverse between the Scylla of identicalness (including all bundled services embedded in the product at its point of sale) and the Charybdis of blatancy in order to establish subtle "material differences."[1]

When making the traverse between identicalness and blatancy, if the purchasing process is extensive and the good

1. *The Odyssey*, Homer.

being sold expensive, the trademark holder will face a raised threshold of materiality because there is less of a likelihood that the consumer will be misled. *See Blue-Bell, Inc. v. Jaymar-Ruby, Inc.*, 497 F.2d 433, 435-36 (2d Cir. 1974). When evaluating a trademark holder's traverse between identicalness and blatancy, courts consider whether "the buyer market [is] composed of discriminating [and/or of] relatively unknowledgeable buyers." *See Omega Importing Corp. v. Petri-Kine Camera Co.*, 451 F.2d 1190, 1195 (2d Cir. 1971).[2] Additionally, if proof of confusion relates only to a small number of consumers, such confusion is not relevant. "The remote possibility of occasional confusion in those who observe less than ordinary care" is not a consideration. *See Modular Cinemas of America, Inc. v. Mini Cinemas Corp.*, 348 F.Supp 578, 582 (S.D.N.Y 1972). Instead, "whether there is any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question" must be the predominate consideration. *See Mushroom Makers, Inc. v. R.G. Barry Corp.*, 580 F.2d 44, 47 (2d Cir. 1978).

Common Law Trademark Infringement

In addition to the protections afforded by the Lanham Act, the "right to adopt and use a symbol or a device to

2. *But see, Banff, LTD. v. Federated Department Stores, Inc.*, 841 F.2d 486, 492 (2d Cir. 1988) (*citing McGregor-Doniger v. Drizzle Inc.*, 599 F.2d 1126, 1137 (2d Cir. 1979) ("where products are identical and the marks are identical, the sophistication of buyers cannot be relied upon to prevent confusion" when non gray market products are involved.))

distinguish the goods or property made or sold by the person whose mark it is, to the exclusion of use by all other persons, has been long recognized by the common law and the chancery courts of England and of this country." *In re Trademark Cases*, 100 U.S. 82, 92 (1879). Common law trademark infringement is a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *See Certain Electric Power Tools, Battery Cartridges & Battery Chargers*, Inv. No. 337-TA-284, U.S.I.T.C. Pub. No. 2389, Initial Determination (U.S.I.T.C., June 2, 1989) (unreviewed by Commission) ("*Power Tools*").

In order to assert common law trademark rights, a party must show: (1) that they have the right to use the alleged mark; (2) that the alleged mark is not functional; (3) that the mark is either inherently distinctive or has acquired secondary meaning; and (4) that the mark has not become generic. *Power Tools*, *supra*, at 200. Once a party perfects its claim to common law trademark rights, to prove infringement, the markholder must show that the allegedly infringing mark is likely to cause confusion. *Id.* at 235; *see also Union National Bank of Texas, Laredo, Texas v. Union National Bank of Texas, Austin, Texas*, 909 F.2d 839, 844 (5th Cir. 1990).

First, a party claiming a mark must establish that he has a right to identify his product by the mark. *Power Tools* at 200. It is well-established that the "first to use a mark in the sale of goods or services is the 'senior user' of the mark and gains common law rights to the mark in the geographic area in which the mark is used." *Allard Enterprises, Inc. v. Advanced Programming Resources, Inc.*, 249 F.3d 564, 572 (6th Cir. 2001) ("*Allard*"). Thus, prior use by another without

abandonment may bar common law trademark rights for subsequent users, although to constitute a bar the prior use must confer trademark rights on the senior user. *Power Tools* at 200. Moreover, because "[ow]nership rights flow only from prior use — either actual or constructive . . . [f]ederal registration of a trademark or service mark cannot create rights and priority over others who have previously used the mark in commerce, but federal registration is *prima facie* evidence of the registrant's ownership and exclusive right to use the mark and constitutes constructive use of the mark." *Allard* at 572.

Second, a mark is functional, and thus cannot serve as a trademark, if "it is essential to the use or purpose of the article or if it affects the cost or quality of the article, that is, if exclusive use of the feature would put competitors at a significant non-reputation-related disadvantage." *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 165 (1995).

Third, "suggestive," "arbitrary," and "fanciful" marks "because their intrinsic nature serves to identify a particular source of a product, are deemed inherently distinctive and are entitled to protection." *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992) ("*Two Pesos*"). Merely "descriptive" marks are not deemed inherently distinctive and thus are entitled to protection only upon a showing of "secondary meaning." *Two Pesos*, *supra*, 505 U.S. at 769. Secondary meaning occurs when a descriptive mark becomes "distinctive of the applicant's goods in commerce." *Id.*; *see also Certain Air Impact Wrenches*, Inv. No. 337-TA-311, Initial Determination at 52, 1991 WL 788551 (U.S.I.T.C., May 29, 1991) (unreviewed by Commission) ("*Wrenches*)

("Secondary meaning is established if it can be shown that a substantial number of the relevant consumer group for the product at issue associates a mark with a single, though perhaps anonymous, source."). Secondary meaning may be shown by using direct evidence, including "actual testimony of buyers as to their state of mind and may include professionally conducted consumer surveys," or by using circumstantial evidence such as advertising, length of use, exclusivity of use, and sales volume. *Wrenches, supra; see also Power Tools, supra*, at 213. Notably, a registered mark under 15 U.S.C. § 1115(a) is interpreted to afford the markholder one of two presumptions: "(1) that her registered trademark is not merely descriptive or generic; or (2) that if descriptive, the mark is accorded secondary meaning." *Packman v. Chicago Tribune Co.*, 267 F.3d 628, 638 (7th Cir. 2001).

Fourth, generic terms, meaning "the name of a particular genus or class of which an individual article or service is but a member," may never enjoy trademark protection. *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 790 (5th Cir. 1983). In addition, pursuant to 15 U.S.C. § 1064, "if at any time a registered trademark becomes generic as to a particular product or service, the mark's registration is subject to cancellation." *Id.*

Lastly, the "likelihood of confusion" inquiry remains "the basic test for both common law trademark infringement and federal statutory trademark infringement." *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394, 1403 (9th Cir. 1997); *see also AHP Subsidiary Holding Co. v. Stuart Hale Co.*, 1 F.3d 611, 615 (7th Cir. 1993) ("The

linchpin of both common law and federal statutory trademark infringement claims is whether consumers in the relevant market confuse the alleged infringer's mark with the complainant's mark."). In addition, as noted above, the "existence of material differences creates a legal presumption that consumers are likely to be confused as to the source of the gray market product." *Tractors*, Commission Violation Opinion, *supra*, at 6. Thus, unrebutted proof of material differences satisfies the likelihood of confusion element of common law trademark infringement.

Trademark Dilution

Trademark dilution protection under the Lanham Act entitles the owner of a "famous" mark to injunctive relief from another's commercial use of the mark, if such use: (1) occurs after the mark becomes famous, and; (2) causes dilution of the distinctive quality of the famous mark. 15 U.S.C. § 1125(c)(1). Trademark dilution is a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *See Certain Cigarettes and Packaging Thereof*, Inv. No. 337-TA-424, U.S.I.T.C. Pub. No. 3366 (November 2000), Initial Determination, 2000 WL 1726827 (U.S.I.T.C., October 16, 2000) (unreviewed by Commission) ("*Cigarettes*").

The statute establishes a non-exclusive eight factor test for determining whether a mark is famous and distinctive: (1) the degree of inherent or acquired distinctiveness; (2) the duration and extent of use of the mark in connection with the goods and services with which the mark is used; (3) the duration and extent of advertising and publicity of the mark; (4) the geographical extent of the trading area in

which the mark is used; (5) the channels of trade for the goods or services with which the mark is used; (6) the degree of recognition of the mark in the trading areas and channels of trade of the mark's owner and the person against whom the injunction is sought; (7) the nature and extent of use of the same or similar marks by third parties; and (8) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register. 15 U.S.C. § 1125(c)(1)(A)-(H); *see Certain Luggage Products*, Inv. No. 337-TA-243, U.S.I.T.C. Pub. No. 1969, Initial Determination at 73, 1986 WL 379286 (U.S.I.T.C., December 29, 1986) (holding that "famous" marks are those that are strong and distinctive, a prerequisite for trademark dilution).

The statute defines dilution as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of competition between the owner of the famous mark and other parties, or likelihood of confusion, mistake, or deception." 15 U.S.C. § 1127; *see Cigarettes*, *supra*, at 37. Dilution may occur by "blurring" or "tarnishment." *See Cigarettes*, *supra*. "Blurring" generally refers to use of the famous mark for other, typically non-competitive, goods or services so as to endanger the ability of the mark to uniquely identify the good or service for which it became famous. *Id.* (*citing Panavision Intl, L.P. v. Toeppen*, 141 F.3d 1316, 1326 n.7 (9th Cir. 1998) ("Panavision")). "Tarnishment" refers to use that associates the mark with goods or services of poor quality or of such a nature as to degrade the mark by association. *Id.* (*citing Hormel Foods Corp. v. Jim Henson Productions, Inc.*, 73 F.3d 497, 507 (2d Cir. 1996) ("The *sine qua non* of

tarnishment is a finding that plaintiff's mark will suffer negative associations through defendant's use")); *Deere & Co. v. M'I'D Productions, Inc.*, 41 F.3d 39, 44 (2d Cir. 1994); *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26 (1st Cir.), *cert. denied*, 483 U.S. 1013 (1987). In *Ty Inc. v. Perryman*, 306 F.3d 509, 512 (7th Cir. 2002), the court contemplated and rejected a catchall third form of dilution where neither blurring nor tarnishment occurs, but a party "is still taking a free ride on the investment of the trademark owner in the trademark."

To determine whether dilution exists, the qualities, which the tests employed by the Circuits consider, though they "vary in the level of detail they apply[,] . . . are essentially the same." *V Secret Catalogue*, *supra*, 259 F.3d at 471. The factors include: (1) distinctiveness of the mark; (2) similarity of the senior and junior marks; (3) proximity of the products and likelihood of bridging the gap; (4) interrelationship among the distinctiveness of the senior mark, the similarity of the junior mark, and the proximity of the products; (5) shared consumers and geographical limitations; (6) sophistication of consumers; (7) actual confusion; (8) adjectival or referential quality of the junior use; (9) harm to the junior user and delay by the senior user; and (10) effect of senior's prior laxity in protecting the mark. *See generally Nabisco*, *supra*, 191 F.3d at 217-222.

False Designation of Origin

Under the Lanham Act, it is unlawful to use in commerce, in connection with goods or services, any "false or misleading description of fact, or false or misleading representation of

fact . . . [which] is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person." 15 U.S.C. § 1125(a)(1)(A); *see Cigarettes*, *supra*, at 41-42. False designation of origin is a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *Cigarettes*, *supra*, at 42.

In the gray market context, violation of 15 U.S.C. § 1125(a)(1)(A), and thus violation of Section 337(a)(1)(A), "turns on the existence *vel non* of material differences between the products of a sort likely to create consumer confusion." *Cigarettes*, *supra*, at 42-43 (*quoting Nestle*, *supra*, 982 F.2d at 640). Also, the "existence of material differences creates a legal presumption that consumers are likely to be confused as to the source of the gray market product." *Tractors*, Commission Violation Opinion, *supra*, at 6.

False Advertising

Under the Lanham Act, it is unlawful to use in commerce, in connection with goods or services, any "false or misleading description of fact, or false or misleading representation of fact . . . in commercial advertising . . . [which] misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities." 15 U.S.C. § 1125(a)(1)(B). False advertising is a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *Cigarettes*, *supra*, at 43.

Appendix C

A claim of false advertising requires: "(1) that the defendant made a false statement either about the plaintiffs or its own product; (2) the statement was made in a commercial advertisement or promotion; (3) the statement actually deceived or has the tendency to deceive a substantial segment of its audience; (4) the deception is material, in that it is likely to influence the purchasing decision; (5) the defendant caused its false statement to enter interstate commerce; and (6) the plaintiff has been or is likely to be injured as a result of the false statement, either by direct diversion of sales from itself to the defendant, or by a lessening of goodwill associated with the plaintiffs product." *Jarrow Formulas, Inc. v. Nutrition Now, Inc.*, 304 F.3d 829, 835 n.4 (9th Cir. 2002); *see also Zenith Electronics Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1348 (Fed. Cir. 1999).

As to the first and second criteria, the "false advertisement may either be one that is literally false on its face, or, alternatively, one that implicitly conveys a false impression or is misleading in context." *Cigarettes, supra*, at 43. In latter cases, "proof that the advertising actually conveyed the implied message and thereby deceived a significant portion of the recipients becomes critical." *Id.* (*quoting United Indus. Corp. v. Clorox Co.*, 140 F.3d 1175, 1182 (8th Cir. 1998)).

Passing Off

The common law doctrine of "passing off" (or "palming off") generally holds that a "man is not to sell his own goods under the pretence (*sic*) that they are the goods of another man; he cannot be permitted to practice such a deception,

nor to use the means which contribute to that end. He cannot therefore be allowed to use names, marks, letters, or other indicia, by which he may induce purchasers to believe, that the goods which he is selling are the manufacture of another person." *Hygienic Specialties Co. v. H. G. Salzman, Inc.*, 302 F.2d 614, 620-21 (2d Cir. 1962) (quoting *Perry v. Truefitt*, 49 Eng. Rep. 749, 752 (1842)). Passing off is a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *Power Tools, supra.*

Under the common law, a claim of passing off required that the plaintiff "prove the perpetration of fraud, '*i.e.*, that the defendant is so foisting his product on the market that there is resulting confusion or a likelihood of confusion as to its source in the mind of the buying public.'" *Id.* (quoting *Speedry Products, Inc. v. Dri Mark Products, Inc.*, 271 F.2d 646, 648 (2d Cir. 1959)). As a matter of Commission practice, to prevail on a claim of passing off, "[i]n addition to the elements required for a showing of trademark infringement, palming or passing off requires proof that respondents subjectively and knowingly intended to confuse buyers." *Certain Single Handle Faucets*, Inv. No. 337-TA-167, Initial Determination at 53 (U.S.I.T.C., August 1, 1984).

Unfair Pecuniary Benefits

As indicated in the "Procedural History/Rulings" section of this Initial Determination, SKF USA's allegation of "unfair pecuniary benefits" has been found by the Commission not to be a cognizable claim under Section 337. Accordingly, there is no further discussion of that allegation herein.

Appendix C

Laches

Laches, otherwise known as "estoppel by laches," is the "neglect or delay in bringing suit to remedy an alleged wrong, which taken together with lapse of time and other circumstances, causes prejudice to the adverse party and operates as an equitable bar." *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020, 1028-1029 (Fed. Cir. 1992) (en banc) *("Aukerman")*. Laches is a personal defense to the extent that a "plaintiffs failure to assert trademark rights against third parties is not relevant." *Elvis Presley Enterprises, Inc. v. Elvisly Yours, Inc.*, 936 F.2d 889, 894 (6th Cir. 1991); *see also Sweetheart Plastics, Inc. v. Detroit Forming, Inc.*, 743 F.2d 1039, 1046 (4th Cir. 1984) ("*Sweetheart Plastics*"); *Libbey Glass, Inc. v. Oneida Ltd.*, 61 F. Supp. 2d 700, 718-19 (N.D. Ohio 1999). Application of the doctrine is left to the sound discretion of the trial judge, though such discretion is guided by several considerations. *Id.* at 1032-33. First, "[t]he length of time . . . deemed unreasonable has no fixed boundaries but rather depends on the circumstances." *Id.* at 1032. Second, either "evidentiary" or "economic," material prejudice to adverse parties resulting from delay is essential to the laches defense. *Id.* at 1033. "Evidentiary or defense prejudice may arise by reason of a defendant's inability to present a full and fair defense on the merits due to the loss of records, the death of a witness, or the unreliability of memories of long past events thereby undermining the court's ability to judge the facts." *Id.* "Economic prejudice may arise where a defendant and possibly others will suffer the loss of monetary investment or incur damages which likely would have been prevented by earlier suit." *Id.* Third, any justification offered by the

plaintiff for its delay must be considered and weighed. Fourth, laches may be defeated if the accused infringer "engaged in particularly egregious conduct which would change the equities significantly in plaintiff's favor." *Id.* Laches may also be defeated upon a showing of "inevitable confusion," which is defined as a "heightened showing of likelihood of confusion." *Harley Davidson, Inc. v. O'Connell*, 13 F. Supp. 2d 271, 285 (N.D.N.Y. 1998).

The availability of laches as a defense to trademark infringement, in the context of Section 337 investigations, remains an open question. *See Cigarettes*, *supra* at 52-53 ("Staff . . . maintains that the laches defense does not apply in Section 337 investigations where only injunctive relief is available . . . Even assuming the potential applicability of these defenses, PTI fails to satisfy its burden."). In patent infringement cases, it is well-established that "laches bars damages for a patent defendant's pre-filing infringement but not for post-filing damages or injunctive relief unless elements of estoppel are established." *Aukerman*, *supra*, 960 F.2d at 1040 (*citing Menendez v. Holt*, 128 U.S. 514 (1888) ("*Menendez*")). Since the only relief available in Section 337 investigations is prospective in nature, *see* 19 U.S.C. § 1337(d), -(f), laches is never a valid defense to patent infringement claims brought before the Commission. *See Certain Personal Watercraft and Components Thereof*, Inv. No. 337-TA-452, Order No. 54 at 2, 2001 WL 1117935 (U.S.I.T.C., September 19, 2001) (Initial Determination unreviewed by Commission).

However, courts have extended, or have contemplated extending, laches to injunctive relief in trademark

infringement actions. *See, e.g., University of Pittsburgh v. Champion Products, Inc.*, 686 F.2d 1040, 1044 (3d Cir. 1982) ("*Champion Products*"); *Seven-Up Co. v. O-So-Grape Co.*, 283 F.2d 103, 106 (7th Cir. 1960) ("*Seven-Up*"); *Minnesota Mining and Manufacturing Co. v. Beautones Specialties Co.*, 82 F. Supp. 2d. 997, 1005 (D. Minn. 2000) ("3M"). In *Aukerman*, without taking a clear position, the Federal Circuit acknowledged that "some courts have concluded that the Supreme Court created no *per* se rule restricting the effect which a district court may afford the defense of laches on a continuing tort . . . [so that] laches may bar all relief *but only in egregious circumstances.*" *Aukerman, supra*, F.2d at 1040 (emphasis added). What constitutes "egregious circumstances" may be ascertained by reading *Menendez*, where the Court held that "[m]ere delay or acquiescence cannot defeat the remedy by injunction in support of the legal [trademark] right, *unless it has been continued so long, and under such circumstances, as to defeat the right itself.*" *Menendez, supra*, 128 U.S. at 523 (emphasis added).

Accordingly, courts that have extended laches to prospective relief have grafted an egregiousness criterion to the laches analysis, and its dual requirements of undue delay and material prejudice. *See, e.g., Champion Products, supra*, 686 F.2d at 1044 ("[I]t is also clear that actual 'laches' in effect works an equitable estoppel barring all relief and requires a showing of both delay and prejudice . . . [and] there is that narrow class of cases where the plaintiffs delay has been so outrageous, unreasonable and inexcusable as to constitute a virtual abandonment of its right.); *Seven-Up, supra*, 283 F.2d at 106 ("Laches does not necessarily constitute a conclusive and automatic bar to injunctive relief

in trademark actions. However, . . . the delay may be so prolonged and inexcusable that it would be inequitable to permit the plaintiff to seek injunctive relief."); 3M, *supra*, 82 F. Supp. 2d. at 1005 ("Defendants contend, however, that the circumstances surrounding this case are sufficiently egregious to bar all relief . . . The court disagrees.). Other courts, specifically those of the Sixth Circuit, have held that laches does not apply to prospective relief unless the conditions for equitable estoppel exist. *See, e.g., Kellogg Co. v. Exxon Corp.*, 209 F.3d 562, 568 (6th Cir. 2000); *TWM Mfg. Co. v. Dura Corp.*, 592 F.2d 346, 349-50 (6th Cir. 1979); *Freed v. Farag*, 994 F. Supp. 887, 891 (N.D. Ohio 1997).

To date, neither the Commission nor the Federal Circuit has expressly held that laches is inapplicable to prospective relief in cases of trademark infringement. Accordingly, this issue is a matter of first impression here. Given that courts have held that in egregious cases laches may bar prospective relief for trademark infringement, and given that 19 U.S.C. § 1337(c) provides that "[a]ll legal and equitable defenses may be presented in all cases," for the purposes of this Initial Determination, the undersigned assumes that laches is a valid affirmative defense.

Equitable Estoppel

Equitable estoppel involves: "(1) misleading conduct, which may include not only statements and action but silence and inaction, leading another to reasonably infer that rights will not be asserted against it; (2) reliance upon this conduct; and (3) due to this reliance, material prejudice if the delayed assertion of such rights is permitted." *Lincoln Logs Ltd. v.*

Lincoln Pre-Cut Log Homes, Inc., 971 F.2d 732, 734 (Fed. Cir. 1992) *(citing Aukerman, supra*, 960 F.2d at 1040); *Certain Garage Door Operators Including Components Thereof*, Inv. No. 337-TA-459, Order No. 11, at 5, 2002 WL 27571 (U.S.I.T.C., January 7, 2002). "Reliance is not the same as prejudice or harm, although frequently confused . . . [t]o show reliance, the infringer must have had a relationship or communication with the plaintiff which lulls the infringer into a sense of security." *Aukerman, supra*, 960 F.2d at 1043. Like laches, "material prejudice may be a change of economic position or loss of evidence." *Id.* In addition, egregious conduct on the part of the alleged infringer must also be considered. *Gasser Chair Co. v. Infanti Chair Mfg. Corp.*, 60 F.3d 770, 776 (Fed. Cir. 1995). Application of the doctrine is given to the sound discretion of the trial judge. *Aukerman, supra*, 960 F.2d at 1041.

Two notable differences distinguish equitable estoppel from laches. First, successful application of equitable estoppel does not require undue delay, although "[d]elay in filing suit may be evidence which influences the assessment of whether the [] conduct is misleading." *Aukerman, supra*, 960 F.2d at 1042. Second, it is well-established that all relief, including prospective relief, may be barred by equitable estoppel. *Id.* at 1041.

Acquiescence applies "only in those cases where the trademark owner, by affirmative word or deed, conveys its implied consent to another[,] . . . laches denotes a merely passive consent while acquiescence implies active consent." *McCarthy on Trademarks and Unfair Competition*, § 31.41 (4th ed. 2001). Like laches, acquiescence is a personal

defense "which merely results in a loss of rights as against one defendant." *Sweetheart Plastics, supra*, at 743 F.2d at 1046. The elements of acquiescence are that: "(1) the senior user actively represented that it would not assert a right or a claim; (2) the delay between the active representation and assertion of the right or claim was not excusable; and (3) the delay caused the defendant undue prejudice." *SunAmerica Corp. v. Sun Life Assurance Co. of Can.*, 77 F.3d 1325, 1334 (11th Cir. 1996) ("*SunAmerica*"); *see also Wrenches, supra*, at 123 *(citing Carl Zeiss Stiftung v. VEB Carl Zeiss, Jena*, 293 F. Supp. 892, 917 (S.D.N.Y. 1968)); *Kellogg Co. v. Exxon Corp.*, 209 F.3d 562, 569 (6th Cir. 2000); *Creative Gifts, Inc. v. UFO*, 235 F.3d 540, 547 (10th Cir. 2000); *Pappan Enters., Inc. v. Hardee's Food Sys.*, Inc., 143 F.3d 800, 804 (3d Cir. 1998); *Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 462 (4th Cir. 1996). However, regardless of acquiescence, if "'inevitable confusion' arises from the continued dual use of the marks, a senior user's claim may be revived from estoppel." *SunAmerica, supra*, 77 F.3d at 1334. The standard for a finding of inevitable confusion is "an increment higher than that required for a finding of a likelihood of confusion." *SunAmerica, supra*, 77 F.3d at 1335 n.3 *(quoting Coach House Restaurant v. Coach and Six Restaurants*, 934 F.2d 1551, 1564 (11th Cir. 1991)).

Unclean Hands

The doctrine of unclean hands "closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief, however improper may have been the behavior of the defendant . . . Thus while 'equity does not demand that its suitors shall

have led blameless lives,' as to other matters, it does require that they shall have acted fairly and without fraud or deceit as to the controversy in issue." *Certain Track Lighting System Components, Including Plugboxes*, Inv. No. 337-TA-286, Initial Determination at 25, 1988 WL 582866 (U.S.I.T.C., May 4, 1988) (*quoting Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814 (1945) ("*Precision Instrument*"). In addition, "where a suit in equity concerns the public interest as well as the private interests of the litigants this doctrine assumes even wider and more significant proportions." *Precision Instrument, supra*, 324 U.S. at 998. Generally, "a trademark defendant must demonstrate that the plaintiffs conduct is inequitable and that the conduct relates to the subject matter of its claims." *Japan Telecom, Inc. v. Japan Telecom America Inc.*, 287 F.3d 866, 870 (9th Cir. 2002) (*quoting Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 847 (9th Cir. 1987)); *see also Sugar Busters LLC v. Brennan*, 177 F.3d 258, 272 (5th Cir. 1999).

Domestic Industry

In General

In connection with a complaint based upon infringement of a registered trademark, a violation of Section 337 can be found "if an industry in the United States, relating to the articles protected by the . . . trademark . . . concerned, exists or is in the process of being established." 19 U.S.C. § 1337(a)(2). In connection with a complaint based on grounds other than infringement of a federally-registered intellectual property right, such as SKF USA's allegations

of infringement of common law trademarks, trademark dilution, false representation of source, false advertising, passing off, and unfair pecuniary benefits, a violation of Section 337 can be found only if "the threat or effect" of such unfair acts is "to destroy or substantially injure an industry in the United States." 19 U.S.C. § 1337(a)(1)(A)(i). The test for the "existence" of a domestic industry that is required for federally-registered intellectual property rights calls for a lesser showing than the test of "injury" to a domestic industry that is required for other Section 337 grounds such as those asserted by SKF. *See* H. R. Rep. No. 100-40, pt. I, at 155-57 (1987) (discussing amendment to Section 337 eliminating requirement of injury to domestic industry for intellectual property-based complaints); *Certain Bar Clamps, Bar Clamp Pads, and Related Packaging, Display, and Other Materials*, Inv. No. 337-TA-429, 2001 WL 474337 Initial Determination at 85 (U.S.I.T.C., March 13, 2001), *Initial Determination vacated on other grounds*, Commission Notice, 66 Fed. Reg. 63558-59 (December 7, 2001) (non-intellectual property-based allegation of Section 337 complaint imposes "a requirement beyond the existence of a domestic industry") ("*Bar Clamps*, Initial Determination").

Domestic Industry Requirements for Federally-registered Trademarks

With respect to SKF USA's unfair import allegations that are based on federally-registered trademark infringement, the domestic industry required by Section 337(a)(2) is that portion of a complainant's activities and facilities in the United States that are devoted to the exploitation of the trademark rights at issue. *See Tractors, supra*, Order No. 39 at 2, 1996 WL 965732 (U.S.I.T.C., August 8, 1996),

reconsidered, Order No. 47, 1996 WL 965489 (U.S.I.T.C., August 21, 1996) and Order No. 48, 1996 WL 965482 (U.S.I.T.C., August 21, 1996) (summary determination finding domestic industry exploiting certain registered trademarks); *Certain Sickle Guards Intended for Use in Mowing Machines*, Inv. No. 337-TA-247, Initial Determination (Feb. 18, 1987), *Certain Vacuum Bottles and Components Thereof*, Inv. No. 337-TA-108, 219 U.S.P.Q. 637 (U.S.I.T.C. 1982); *Certain Airtight Cast Iron Stoves*, Inv. No. 337-TA-69, 215 U.S.P.Q. 963 (U.S.I.T.C. 1980). A domestic industry must be shown for each trademark asserted in the investigation. *See Tractors*, *supra*, Order No. 39 at 5; *also see Certain Chemiluminescent Compositions*, Inv. No. 337-TA-285, Initial Determination at 29 (March 22, 1989) (unreviewed by Commission).

Additionally, Section 337(a)(3) sets forth the following economic criteria for determining the existence of a domestic industry in such investigations:

> an industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the . . . trademark . . . concerned —
>
> > (A) significant investment in plant and equipment;
> >
> > (B) significant employment of labor or capital; or

> (C) substantial investment in its exploitation, including engineering, research and development, or licensing.

19 U.S.C. § 1337(a)(3). As the statute uses the disjunctive term "or," a complainant can demonstrate the existence of a domestic industry by satisfying any one of the three tests set forth in Section 337(a)(3). *See Certain Microlithographic Machines and Components Thereof*, Inv. No. 337-TA-468, Order No. 27 at 4, 2002 WL 1809349 (U.S.I.T.C., July 17, 2002); *also see Certain Plastic Encapsulated Integrated Circuits*, Inv. No. 337-TA-315, U.S.I.T.C. Pub. No. 2574 (November 1992), Initial Determination at 83, 1992 WL 813952 (U.S.I.T.C., October 16, 1991) (unreviewed by Commission in relevant part). Furthermore, the existence of a domestic industry is measured at the time the complaint is filed. *Bally/Midway Mfg. Co. v. U.S. Int'l Trade Comm.*, 714 F.2d 1117, 1122 (Fed. Cir. 1983).

Domestic Industry Requirements for Other Allegations

In connection with SKF USA's unfair import allegations that are not based on federally-registered intellectual property rights, a showing of economic injury "the threat or effect of which is to destroy or substantially injure an industry in the United States" can be demonstrated by proof that a respondent holds a significant share of the domestic market or has made significant sales of the accused products in the United States. *Bar Clamps*, *supra*, Initial Determination at 85; *Certain Electric Power Tools, Battery Cartridges and Battery Chargers*, Inv. No. 337-TA-284, U.S.I.T.C. Pub. No. 2389, (Unreviewed) Initial Determination at 246 (1990)

("*Power Tools*"); *also see Textron, Inc. v. U.S. International Trade Comm.*, 753 F.2d 1019, 1029 (Fed. Cir. 1985). There must also be proof of "a nexus between the respondent's unfair acts and the injury to the domestic industry. *See Bar Clamps*, *supra*. Initial Determination at 85; *Power Tools*, *supra*, Initial Determination at 246.

The Commission has considered a "broad range of indicia" to determine whether unfair acts have the effect of substantially injuring the domestic industry, including a respondent's volume of imports and penetration into the market, the complainant's lost sales, underselling by the respondent, and the complainant's declining production, profitability and sales. *See Bar Clamps*, *supra*, Initial Determination at 85; *Power Tools*, *supra*, Initial Determination at 246. The injury requirement can also be met "[w]hen an assessment of the market in the presence of the accused imported products demonstrates relevant conditions or circumstances from which probable future injury can be inferred." *Power Tools*, *supra*, Initial Determination at 248. Such circumstances may include foreign cost advantages and production capacity, the ability of the imported product to undersell the domestic product, or substantial foreign manufacturing capacity combined with the respondent's intention to penetrate the United States market. *Bar Clamps*, *supra*, Initial Determination at 85-86; *Power Tools*, *supra*, Initial Determination at 248.

Recommended Determination on Remedy

Pursuant to Commission Rules 210.36(a) and 210.42(a)(1)(ii), the Administrative Law Judge is to consider

evidence and argument on the issues of remedy and bonding, and issue a recommended determination thereon.

General or Limited Exclusion Order

Section 337(d)(2) authorizes the Commission to issue a general exclusion order only if it determines that —

> (A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or
>
> (B) there is a pattern of violation of this section and it is difficult to identify the source of infringing products.

19 U.S.C. § 1337(d)(2); 19 C.F.R. § 210.50(c).

Scope of Exclusion From Entry

The Commission's authority under Section 337 to issue orders excluding unfair imports from entry into the United States extends to all forms of Customs "entry," not only to entry for consumption in the United States. *Certain Devices for Connecting Computers Via Telephone Lines*, Inv. No. 337-TA-360, U.S.I.T.C. Pub. No. 2843, Commission Opinion at 9 (December 1994). This authority, however, is generally applied by the Commission "in measured fashion," and the Commission issues "only such relief as is adequate to redress the harm caused by the prohibited imports." *Id.* In this regard, the type of entry that adversely affects complainants in most

cases is entry for consumption, and an exclusion order covering other types of entry, such as entry for transshipment in bond through the United States, normally is not issued absent a showing by a complainant of a need for such an order. *Id.* at 9-10.

Downstream Products

The Commission has broad discretion in selecting the form, scope and extent of a remedy in an Section 337 investigation. *Viscofan, S.A. v. U.S. International Trade Comm.*, 787 F.2d 544, 548 (Fed. Cir. 1986). In determining whether to exclude downstream products, the Commission considers the following factors:

(1) the value of the infringing articles compared to the value of the downstream products in which they are incorporated;

(2) the identity of the manufacturer of the downstream products;

(3) the incremental value to the complainant for excluding the downstream products;

(4) the incremental detriment to respondents if the products are excluded;

(5) the burden borne by third parties as a result of excluding downstream products;

(6) the availability of alternative downstream products that do not contain the infringing articles;

(7) the likelihood that the downstream products actually contain the infringing article and, thus, are subject to the exclusion order;

(8) the opportunity for evasion of an exclusion order;

(9) the enforceability of an order by Customs; and

(10) any other factors that the Commission determines to be relevant.

Certain Erasable Programmable Read-Only Memories, Inv. No. 337-TA-276, Commission Opinion at 18 (May 1989), *aff'd sub nom. Hyundai Electronics Indus. Co. v. U.S. International Trade Comm.*, 899 F.2d 1204, 1209 (Fed.Cir. 1990).

Certification Provision

Limited exclusion orders may contain a "certification" provision whereby a respondent may import goods by providing to the Customs Service a written certification that the imported products in question are not covered by the asserted claims of the patents at issue. Such provisions facilitate Customs' administration of the order by eliminating the often difficult task of determining how a product was made by examining its contents or appearance. Similar certification provisions have been included in previous exclusion orders, particularly when respondents imported

both infringing and non-infringing products. *See, e.g., Certain Condensers, Parts Thereof, and Products Containing Same*, Inv. No. 337-TA-334 (Remand Proceeding), Commission Opinion at 39, 1997 WL 599891 (U.S.I.T.C., September 10, 1997); *Certain Minoxidil Powders, Salts, and Compositions for Use in Hair Treatment*, Inv. No. 337-TA-267 (1988); *Certain Curable Fluoroelastomer Compositions and Precursors Thereof*, Inv. No. 337-TA-364, U.S.I.T.C. Pub. No. 2890 (May 8, 1995).

Cease and Desist Order

Cease and desist orders are warranted primarily when the respondent maintains a commercially significant inventory of the accused products in the United States. *See Certain Crystalline Cefadroxil Monohydrate*, 15 U.S.P.Q.2d 1263, 1277-79 (U.S.I.T.C. 1990).

Recommended Determination on Bond During Presidential Review Period

If the Commission enters an exclusion order or cease and desist order, parties may continue to import and sell their products during the pendency of the Presidential review under a bond in an amount determined by the Commission to be "sufficient to protect the Complainants from any injury." 19 U.S.C. § 1337(e); 19 C.F.R. § 210.50(a)(3).

The Commission frequently sets the bond by attempting to eliminate the difference in sales prices between the patented domestic product and the infringing product. *See, e.g., Microsphere Adhesives, supra*, Commission Opinion at

24. However, in the absence of reliable price information, the Commission has used other methods to determine an appropriate bond. For example, where a price comparison is unworkable, the Commission has determined that a bond of 100 percent is appropriate. *See, e.g., Certain Variable Speed Wind Turbines and Components Thereof*, Inv. No. 337-TA-376, Commission Opinion at 27-28 and 40 (September 23, 1996). In other instances where a direct comparison between a patentee's product and the accused product was not possible, the Commission has set the bond at a reasonable royalty rate. *See, e.g., Certain Digital Satellite System (DSS)* Receivers *and Components Thereof*, Inv. No. 337-TA-392, (unreviewed) ID and RD at 245 (October 20, 1997).

PROCEDURAL HISTORY/RULINGS

Following the institution of this investigation on April 16, 2002, *see* 67 Fed. Reg. 18632 (April 16, 2002), responses to the Complaint were filed by Respondents Bearing Distributors, BMS, BL, Bohls, Creswell, CST, Gulf, McGuire, Ringball, RitBearing, and Seal Pack. No responses to the Complaint were filed by Respondents Motor Bearing, Wolters, or RIRSA.

Order No. 11, issued on June 14, 2002, denied Staff's motion for a partial summary determination that SKF USA's allegation of "unfair pecuniary benefits" does not allege an unfair act cognizable under Section 337 and that the investigation should be partially terminated as to that allegation. In denying partial summary determination on the issue, the undersigned concluded in Order No. 11 that the scheduled hearing would assist in framing the relevant issues

and provide the necessary factual information to resolve Staff's motion, and that the burdens of additional discovery on the allegation were outweighed by the risk of prematurely dismissing the allegation. In Order No. 16, issued on July 10, 2002, motions of Staff and Respondents BL and McGuire for leave to file an interlocutory appeal of Order No. 11 to the Commission were granted. On September 23, 2002, the Commission issued an order reversing Order No. 11 and granting Staff's motion for summary determination, thereby partially terminating the investigation as to the "unfair pecuniary benefits" claim. *See* 67 Fed. Reg. 61350 (September 30, 2002).

Order No. 15, issued on June 20, 2002, granted SKF USA's motion for an order directing Respondents Motor Bearing and RIRSA to show cause why they should not be found in default under Commission Rule 210.16(b)(1), 19 C.F.R. § 210.16(b)(1), for failing to file a response to the Complaint and Notice of Investigation and for failing otherwise to participate in this investigation. Neither Motor Bearing nor RIRSA responded to the order to show cause. Consequently, in Order No. 30, an initial determination issued on September 30, 2002, Motor Bearing and RIRSA were found to be in default and to have thereby waived their rights to appear, to be served with documents, and to contest the allegations at issue in this investigation. On October 17, 2002, the Commission determined not to review the Initial Determination, thereby making it a final decision of the Commission.

Order No. 19, issued on July 18, 2002, denied the motion of Respondents McGuire, Bohls, BL, Ringball and Bearing

Distributors to join AB SKF, a Swedish company and the corporate parent of SKF USA, as a necessary party complainant in this investigation. In Order No. 20, issued on July 22, 2002, BL was allowed to amend its Response to the Complaint to add the defenses of "failure to join an indispensible party" and the "first sale doctrine."

Order No. 21, issued on July 24, 2002, granted in part and denied in part SKF USA's motion for an order compelling Respondents Bearing Distributors, BL, Bohls, Creswell, CST, Gulf, McGuire, Wolters, and RitBearing to permit representatives of SKF USA to enter upon land and other property in their possession or control for the purpose of inspecting SKF bearings and product packaging present there. In the Order, SKF USA was allowed to conduct inspections of Respondents' property by its counsel and experts, but not by SKF USA personnel.

Order No. 22, issued on July 24, 2002, ordered a hearing for the purpose of resolving several discovery issues among SKF USA and Respondents Bohls and BL. The hearing was held on August 13, 2002. Order No. 23, issued on July 30, 2002, denied a motion of Respondent Bearing Distributors for a protective order to limit its responses to SKF USA's discovery requests on the grounds that those requests were voluminous, burdensome, and sought disclosure of privileged information. Order No. 27, issued on August 13, 2002 after the hearing was concluded, extended all remaining dates in the procedural schedule by one month and changed the target date for this investigation to July 10, 2003, given the delay in providing discovery caused in large part by the manner and timing of SKF USA's discovery responses.

Appendix C

Order No. 28, an initial determination issued on September 13, 2002, granted a joint motion by SKF USA and Respondent BMS to terminate the investigation as to BMS on the basis of a settlement agreement and release. On October 3, 2002, the Commission decided not to review the Initial Determination, thereby making it a final decision of the Commission.

Order No. 29, issued on September 25, 2002, dismissed as moot a motion of Respondent Ringball for a partial summary determination of no violation of Section 337 with respect to the claim of "unfair pecuniary benefits" as it pertains to Ringball, in view of the Commission's determination on September 23, 2002 that "unfair pecuniary benefits" is not a cognizable claim under Section 337.

On October 21, 2002, this investigation was re-assigned by the Commission to Administrative Law Judge Sidney Harris while the undersigned recuperated from an accident. *See* Notice of Commission Decision to Reassign the Investigation to Judge Sidney Harris (October 21, 2002). On October 31, 2002, this investigation was re-assigned back to the undersigned upon the resumption of his duties at the Commission. *See* Notice of Commission Decision to Reassign the Investigation to Judge Delbert R. Terrill, Jr. (October 31, 2002).

Order No. 38, issued on October 9, 2002, granted that part of a motion of Respondent BL that requested declassification of an interrogatory response of SKF USA, and denied that part of the motion that requested reclassification of all documents produced by SKF USA that

were the product of searching through the trash containers and dumpsters of BL as the confidential business information of BL rather than that of SKF USA, as they were then designated. In Order No. 49, issued on October 28, 2002, Judge Harris denied BL's motion to reconsider Order No. 38. In Order No. 72, issued on November 15, 2002, the undersigned denied BL's motion to reconsider Order No. 49 or, in the alternative, for leave to apply for interlocutory review. In Order No. 77, issued on November 19, 2002, the undersigned granted Staff's motion for reconsideration of Order No. 72 and reaffirmed that Order.

In Order No. 43, issued on October 23, 2002, Judge Harris granted SKF USA's motion for a protective order postponing Respondent BL's deposition of SKF USA counsel concerning unauthorized disclosure of BL's confidential business information until after post-hearing reply briefs in this investigation were filed.

In Order No. 44, issued on October 23, 2002, Judge Harris issued an order changing the ground rules for this investigation and modifying the procedural schedule in certain respects. In Order No. 55, issued on October 31, 2002, the undersigned rescinded Order No. 44 and reinstated the original ground rules and procedural schedule.

Order No. 60, issued on November 8, 2002, denied Respondent McGuire's motion to disqualify SKF USA's expert witness, William H. Drumm, on the ground that Drumm had been directed in Order No. 57, issued on November 1, 2002, to submit to further deposition by Respondents, and could therefore be questioned regarding

his past work for SKF USA. Order No. 95, issued on December 9, 2002, after that deposition was held, granted McGuire's motion for reconsideration of Order No. 60 on the basis of facts elicited in thaf deposition, and disqualified Drumm. Order No. 101, issued on December 16, 2002, denied SKF USA's motion for reconsideration of Order No. 95.

Order No. 62, issued November 8, 2002, denied SKF USA's motion for an order finding Wolters in default for failure to make or cooperate in discovery.

Order No. 68, issued November 13, 2002, dismissed as untimely SKF's motion for summary determination that a domestic industry exists.

Order No. 82, an initial determination issued on November 27, 2002, granted a joint motion by SKF USA and Respondent Ringball to terminate the investigation as to Ringball on the basis of a settlement agreement and release. On December 18, 2002, the Commission decided not to review the Initial Determination, thereby making it a final decision of the Commission.

Order No. 86, an initial determination issued on December 2, 2002, granted a joint motion by SKF USA and Respondent Bearing Distributors to terminate the investigation as to Bearing Distributors on the basis of a settlement agreement and release. On December 18, 2002, the Commission decided not to review the Initial Determination, thereby making it a final decision of the Commission.

Appendix C

Order No. 93, an initial determination issued on December 6, 2002, granted a joint motion by SKF USA and Respondent Creswell to terminate the investigation as to Creswell on the basis of a settlement agreement and release. On December 30, 2002, the Commission decided not to review the Initial Determination, thereby making it a final decision of the Commission.

Order No. 94, an initial determination issued on December 6, 2002, granted a joint motion by SKF USA and Respondent Gulf to terminate the investigation as to Gulf on the basis of a settlement agreement and release. On December 30, 2002, the Commission decided not to review the Initial Determination, thereby making it a final decision of the Commission.

Order No. 97, issued December 9, 2002, granted in part the motion *in limine* of Respondents BL and McGuire to preclude evidence at trial regarding "filling notch" bearings and alleged differences between bearings having seals denominated by "RS" and those denominated by "RS 1." The Order denied in part Respondents' request to preclude evidence concerning SKF bearings pre-lubricated with grease containing lead.

Order No. 102, an initial determination issued on January 6, 2003, granted a joint motion by SKF USA and Respondent RitBearing to terminate the investigation as to RitBearing on the basis of a settlement agreement and release. On January 28, 2003, the Commission decided not to review the Initial Determination, thereby making it a final decision of the Commission.

Appendix C

Order No. 103, an initial determination issued on January 14, 2003, granted a motion by SKF USA for issuance of an order finding Respondent Seal Pack in default. On February 10, 2003, the Commission decided not to review the Initial Determination, thereby making it a final decision of the Commission.

Order No. 104, an initial determination issued on January 14, 2003, granted a motion by SKF USA for issuance of an order finding Respondent Wolters in default. On February 10, 2003, the Commission decided not to review the Initial Determination, thereby making it a final decision of the Commission.

Order No. 106, issued on February 24, 2003, denied a motion by SKF USA to admit into evidence stipulations entered into by SKF USA and settling Respondent Creswell, but not agreed to by any of the other non-settling Respondents.

Appendix C

ISSUE SPECIFIC POSITION OF PARTICIPANTS, DISCUSSION, ANALYSIS AND FINDINGS

Issue I: Trademark Infringement

Issue I.A: SKF USA, Inc. Trademarks

Issue I.A.1: Whether the SKF trademarks are valid and owned by SKF USA?

Complainant's Position

According to SKF USA, it owns the SKF registered word marks and SKF registered design marks, certified copies of which are in evidence as CPX-299, CPX-300, CPX-301 and CPX-302. CIB 3. These certificates, according to SKF USA, prove the validity of the registered marks and registrations, the distinctiveness of the marks, SKF USA's ownership of the marks, and SKF USA's exclusive right to use the marks in U.S. commerce. *Id.* In addition, SKF USA contends, the registered marks are, or are in the process of becoming, incontestable. CIB 3-4.

In connection with Respondents' claim that consumers associate the SKF trademarks with the global SKF Group of companies and not SKF USA alone, SKF USA contends that consumer association is not relevant to the narrow issue of trademark ownership and that SKF USA has clearly established that it has owned the trademarks since their registration. CIB 5. Further, SKF USA maintains, it has created an independent association in consumers' minds between the SKF trademarks and SKF USA itself through

advertising and promotion of the trademarks, SKF USA's extended physical presence in the United States, and the tailoring of its products and services to the U.S. market. CIB 5-6; CRB 5-8. Trademark rights are territorial, SKF USA argues, and therefore a wholly-owned subsidiary of a foreign company can possess independent goodwill in the U.S. market that is separate from the foreign company. *See* CRB 4. SKF USA contends that it has labored both independently and through its authorized distributors to establish a goodwill that is distinct from the goodwill that may exist in other countries where SKF entities operate. CIB 6; CRB 13-16.

Respondents' Position

According to Respondents, although the SKF trademarks are valid and are nominally owned by SKF USA, it is the SKF Group, not SKF USA, to which the goodwill for the trademarks at issue must be attributed. *See* RIB 7. Nominal ownership of the U.S. trademark registrations does not conclusively establish that SKF USA owns the goodwill of the mark, Respondents maintain. *Id.* Respondents argue that the SKF Group consistently holds itself forth in connection with the SKF trademarks as a worldwide bearing producer, with global sales and global standards, and as having global quality and performance standards. RIB 7-8. It is especially noteworthy, according to Respondents, that in submitting a U.S. trademark application to register the mark "SKF," AB SKF, parent company of the SKF Group, contended that the seventeen existing U.S. registrations for the SKF mark (owned by SKF USA) should not bar its registration because "SKF USA Inc. is a wholly-owned company of AB SKF, and therefore, no potential conflict exists as a unity of control is presumed." RIB 8, ~~*citing*~~ RPX-0005.

Appendix C

Insofar as a trademark truly is owned by the entity that controls the nature and quality of the goods sold under that mark, Respondents contend, SKF Group, not SKF USA, owns the goodwill in the SKF trademarks. RIB 8. Because consumers associate the SKF mark with the SKF Group as a source of SKF bearings, Respondents argue, consumers are getting precisely what they expect when they purchase SKF bearings imported and/or sold by Respondents — that is, bearings manufactured by SKF MUs, to SKF standards and SKF specifications, backed by the SKF Group's reputation. RRB 7. SKF USA's assertion that U.S. consumers associate the SKF marks with SKF USA rather than the SKF Group, Respondents maintain, is not supported by the evidence. *Id.* Further, to the extent that SKF USA relies on material differences as a basis for presuming goodwill independent to SKF USA, Respondents argue, there are no material differences between the bearings at issue. RRB 8.

Commission Investigative Staffs Position

It is Staff's position that the SKF registered trademarks are owned by SKF USA and are now incontestible. SIB 14-15. Staff notes that Respondents have not presented any evidence to the contrary, and, indeed, do not appear to contest that SKF USA is the registered owner in the U.S. of the trademarks at issue and that such marks are valid. SIB 15. Thus, Staff maintains, SKF USA has established that it owns the registered marks at issue, and that these marks are valid. *Id.*

As to Respondents' contention that consumers associate the SKF marks with the global SKF Group and that the

goodwill of the SKF marks inures to the benefit of that entity, Staff argues that Respondents' argument is not consistent with current precedent dealing with trademark infringement by gray market products. SIB 15; SRB 4. According to Staff, the fact that foreign affiliates of a U.S. trademark holder produce and sell the products that enter the United States via the gray market does not change the fact that these gray market sales may infringe the U.S. trademark holder's intellectual property rights. SIB 15. Staff points out that all of the Commission's previous "gray market" cases involved products produced and sold by manufacturers affiliated with the United States trademark holder. *See* SIB 15-16 and cases cited therein. Moreover, Staff maintains, the courts have also recognized that the Lanham Act bars importation of materially different gray market goods even if those goods are produced by the trademark holder's foreign parent. *See* SIB 16; SRB 4-5; and cases cited therein. In Staff's view, the fact that AB SKF and the foreign SKF MUs produce the bearings is irrelevant to the issue of whether the importation and sale of these products without SKF's authorization is likely to confuse U.S. consumers. SIB 16.

Staff argues that, unless Respondents are asserting fraud in the procurement of the trademark registrations (of which they have presented no evidence), any claim that SKF USA does not have exclusive rights to the registered marks is barred by the fact that the registrations have become incontestable. SIB 16, *citing* 15 U.S.C. § 1115(b). Staff also rejects Respondents' contention that SKF USA cannot assert trademark infringement because it has not developed a goodwill separate from that of AB SKF in the marks, because United States courts have long recognized the "territoriality"

principle of trademark law (*i.e.*, that a U.S. trademark is separate and independent of any foreign trademarks), and because the need to show a separate goodwill in the U.S. mark does not exist when the gray market goods are shown to be "materially different." *See* SIB 17; SRB 5; and cases cited therein. According to Staff, the fact that other entities may have the right to use the SKF trademarks elsewhere in the world does not change the infringement analysis discussed below with respect to the "gray market" products entering the United States. *See* SIB 17; SRB 5.

Discussion, Analysis, and Conclusion

None of the parties dispute that SKF USA is the registered owner in the U.S. of the trademarks at issue and that such marks are valid. Indeed, as a matter of law, SKF USA's registrations of the marks and its undisputed use of the marks for five consecutive years following those registrations constitutes "conclusive evidence" of the validity of the marks, of SKF USA's ownership of the mark, and, most importantly, of SKF USA's exclusive right to use the registered marks in commerce. *See* 35 U.S.C. § 1115(b); *also see* 35 U.S.C. § 1065.

Respondents' argument that the goodwill of the SKF trademarks inures globally to the SKI Group as a whole rather than to SKF USA alone, and thereby frees Respondents' gray market sales of SKF-brand bearings in the U.S. from infringement by way of the "first sale" doctrine, misconstrues the trademark law of this Commission and the Federal Circuit. While neither has ever before been faced with the exact factual predicate of this investigation, *i.e.*, physically

identical but otherwise "materially different" products, in the context of a "first sale/common control" analysis, Respondents' misconception arises from the fact that SKF USA, a subsidiary of AB SKF, owns the SKF marks in the United States even though AB SKF owns and uses the marks in other countries. Respondents surmise, therefore, that AB SKF should be considered the U.S. owner of the mark as well, not SKF USA.

The mere fact of a parent-subsidiary relationship between AB SKF and SKF USA, however, does not govern which entity is entitled to register and own the mark under United States trademark law. Rather, U.S. law recognizes that this issue is "largely a matter to be decided between the parties themselves." *See* 2 *McCarthy on Trademarks and Unfair Competition* § 16.37 (2001) ("McCarthy"). As the U.S. Patent and Trademark Office, through its Trademark Manual of Examining Procedure, has for many years instructed its trademark examiners:

> Related-company use includes situations where a wholly owned related company of the applicant uses the mark *or the applicant is wholly owned by a related company that uses the mark.*
>
> Frequently, related companies comprise parent and wholly owned subsidiary corporations. *Either a parent corporation or a subsidiary corporation may be the proper applicant, depending on the facts concerning ownership of the mark. The Office will consider the filing of the application in the name of either the parent or the subsidiary*

> *to be the expression of the intention of the parties as to ownership in accord with the arrangements between them.*

Trademark Manual of Examining Procedure § 1201.03(c) (3rd Ed., rev. June 2002) ("TMEP") (emphasis added); *see also K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 299 (1988) ("K Mart") (Brennan, J., concurring in relevant part) (favorably citing foregoing PTO position).

Whether a foreign entity "owns" a U.S. trademark registered in the name of its domestic subsidiary is a legally ambiguous matter. *See K Mart*, *supra*, 486 U.S. at 292 (opinion of the Court), 298 (Brennan, J., concurring in relevant part) and 318 (Scalia, J., concurring in relevant part). By registering the SKF trademarks at issue as they have done, AB SKF and SKF USA have clarified this ambiguity by expressing their intention, "in accord with the arrangements between them" as the PTO puts it, that SKF USA, not AB SKF, owns the marks in the United States.[3] Accordingly, it

---

3. Although SKF USA is the owner of the SKF trademark rights in the U.S., there is no evidence in the record that SKF USA has been designated by AB SKF or any other SKF Group MU as the exclusive distributor of SKF-brand bearings in the U.S. During closing argument, counsel for SKF USA responded to a question on this subject from the undersigned that SKF USA was the exclusive U.S. distributor, pointing for proof in the record to a Staff exhibit containing SKF USA's answer to a Staff interrogatory about SKF's organizational structure. *See* Hearing Tr. 6106:1-9, 6111:20-6112:1, (March 5, 2003); SX-1 (SKF USA's response to Staff Interrogatory No. 2, at p. 11). However, that response states only that SKF USA is an entity within the SKF Group that is "responsible for marketing

(Cont'd)

is SKF USA, not AB SKF, that possesses "the exclusive right to use the mark[s] in commerce" in the United States, and the incontestability of the registrations of those marks conclusively establishes that fact as a matter of law. *See* 15 U.S.C. § 1115(b). Thus, as Staff has observed (*see* SIB 16-17), it does not matter for trademark infringement purposes whether the "goodwill" of the SKF trademarks inures to benefit of the SKF Group or not, because it is only SKF USA that has legal standing under the Lanham Act to exclude others from using those marks by bringing an infringement action, not AB SKF or any other entity of the SKF Group.[4]

(Cont'd)

and sales in the U.S. market" of the SKF Group's "worldwide product assortment." *See id.* It does not say that SKF USA has the *exclusive distributorship* rights for the U.S. *See* Hearing Tr. 6162:1-6163:18. Thus, in the absence of evidence to the contrary, it is presumed that outside of the exclusive right to use the SKF trademarks in the U.S., the SKF Group has reserved to itself the right to sell SKF bearings to any U.S. distributor, not just SKF USA.

4. Respondents find relevant to this matter the fact that on August 28, 2000, AB SKF submitted a U.S. trademark application in its own name for registration of the stylized block font "SKF" logo in connection with other products and services, and in so doing represented to the PTO that SKF USA's seventeen existing U.S. registrations for SKF marks should not bar that registration because "SKF USA Inc. is a wholly-owned company of AB SKF, and therefore, no potential conflict exists as a unity of control may be presumed." RIB 8; *see* RPX-0005 (Certified Copy of AB SKF PTO File Wrapper). The PTO Trademark Examiner assigned to that application blocked registration on the ground that AB SKF should clarify its ownership interest in SKF USA and in the mark applied

(Cont'd)

Even if it were relevant, a trademark's "goodwill" does not necessarily attach as a whole to the activities of a manufacturer; it can also be separately attributable to the downstream activities of distributors of a trademarked product in different countries. As the Commission has previously held in this context, "a single entity can establish independent goodwill in both the foreign and domestic market." *Certain Agricultural Tractors Under 50 Power Take-Off Horsepower*, Inv. No. 337-TA-380, Initial and Recommended Determinations at 12, 1996 WL 901435 (U.S.I.T.C., Nov. 22, 1996) (not reviewed in relevant part by Commission) ("*Tractors*, ID"). Thus, according to the *Tractors* ID, an exclusive domestic trademark licensee of a foreign licensor that has spent "substantial time and effort developing its market position" in the U.S. on the basis of the licensor's trademark has standing to sue for infringement

---

(Cont'd)

for, and without the requested clarification, the Examiner was prepared to refuse registration under Section 2(d) of the Lanham Act. *See id.* (May 7, 2002 PTO Office Action); *also see* 15 U.S.C. § 1052(d). AB SKF subsequently abandoned that application without acting further on the Examiner's request. *See id.* (May 22, 2002 Withdrawal of Application).

This unsuccessful effort on the part of AB SKF to register an identical trademark to one of SKF USA's pre-existing registrations does not help Respondents. Rather, it demonstrates, if nothing else, that SKF USA's right to exclude others from using its marks in the United States potentially applies even against its own parent company, regardless of whether any goodwill associated with those marks inures to the benefit of AB SKF. It does not show, as Respondents argue, that AB SKF has appropriated SKF USA's ownership of the marks at issue to itself.

of that mark even though it is not the registered trademark owner because it is "the actual party in interest" that has created "independent goodwill" in the mark for itself. *Id.*, *quoting Ferrero U.S.A. v. Ozak Trading Inc.*, 753 F.Supp. 1240, 1256 (D.N.J.), *affd*, 935 F.2d 1281 (3d Cir.1991).

"Also," states the *Tractors* ID, "independent goodwill may be presumed where the domestic [products] are materially different from the accused [products]: 'The fact that the gray market goods and the authorized imports are materially different is evidence of the separate existence of good will identified by the mark in the U.S. trademark owner, distinct from good will in the foreign manufacturer.'" *Tractors*, ID at 13, *quoting McCarthy* § 29.19[4]. In other words, "goodwill" is not a determinative factor that requires the focus of this gray market infringement action to rest on AB SKF rather than SKF USA. Rather, it is the presence or absence of "material differences" between the authorized product and the unauthorized product that drives the analysis.

Respondents contend that its bearings are "genuine" SKF products, and therefore there are no material differences between the bearings sold by SKF USA and those sold by Respondents leading to a presumption that SKF USA possesses goodwill in the marks independent of the SKF Group. RRB 8. This argument begs the question, however. As Staff points out, a gray market product that differs materially from an authorized product is, by definition, *not* genuine. SRB 6, *citing Gamut Trading*, *supra*, 200 F.3d at 779 (barring importation of materially different gray market tractors); *Martin's Herend*, *supra*, 6 F.3d at 1296 (barring importation of materially different ceramic figurines but

permitting the import of identical products); *Nestle*, supra, 982 F.2d at 633 (finding a violation in the sale of materially different Nestle chocolates); *Lever Bros. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993) (barring importation of gray market soap based on physical differences); *Original Appalachian, supra*, 816 F.2d at 68 (finding a violation in the importation and sale of materially different cabbage patch dolls). The presence or absence of material differences between SKF USA's "authorized" bearings and Respondents' "unauthorized" bearings is a matter for proof based on the facts of record, not a matter of assumption.

The cases cited by Respondents in support of their position on goodwill do not compel a different result. Rather, they conclude that the goodwill associated with trademarks often inures to the benefit of *both* a parent corporation and its subsidiaries who actually utilize the marks. The Supreme Court's ruling in *K Mart, supra*, does not stand for the proposition advanced by Respondents that "a trademark truly is owned by the entity that controls the nature and quality of the goods sold under that mark." RIB 8. Rather, as noted above, all of the Justices of the Court agreed in *K Mart* that, in a situation such as the present one in which a foreign firm seeking to control distribution of its products in the United States incorporates a subsidiary here that then registers under its own name a U.S. trademark that is identical to its parent's foreign trademark (identified in the decision as case "2(a)"), ownership of that mark by the parent or the subsidiary is legally ambiguous, not a certainty as Respondents contend. *See K Mart, supra*, 486 U.S. at 292. As stated earlier, that legal ambiguity has been clarified in this particular instance by the conclusive nature of SKF USA's incontestible U.S. registrations in its own name.

Appendix C

Also unavailing to Respondents is the Federal Circuit's decision in *In re Wella A.G.*, 858 F.2d 725, 725-26 (Fed.Cir. 1988) ("Wella"), which they cite for the proposition that SKF USA's nominal ownership of the U.S. trademark registrations for the SKF marks does not conclusively establish that SKF USA owns the goodwill of those marks. *See* RIB 7. *Wella* says nothing whatsoever about goodwill; it only establishes that a foreign parent company may register a mark even though its U.S. subsidiary owns related, previously-registered marks, so long as the mark for which registration is sought is not likely to cause confusion as to source in the contemporaneous use of all of the marks by both entities. *See Wella*, *supra*, 858 F.2d at 726. Indeed, the Federal Circuit pointedly reversed and avoided any decision about trademark ownership interests between a parent and a subsidiary because that issue was not properly before the TTAB below. *See id.* at 728.

Similarly, Respondents' citation to the decision of the PTO Trademark Trial and Appeal Board in *The May Department Stores Company v. Prince*, 200 U.S.P.Q. 803, 808 (TTAB 1978) ("May"), is also unhelpful to their contention. In *May*, a department store company was deemed by the TTAB to have standing to oppose a trademark registration on the ground that the mark applied for was confusingly similar to a trademark used by the store chain of one of its corporate subsidiaries. Nowhere in the case does it indicate that the opposer's trademark is registered. Hence, the key factors present here — that the SKF trademarks at issue are registered and SKF USA's right to exclude others from using those marks is incontestible — played no role in *May*.

Appendix C

Accordingly, the SKF trademarks are valid and owned by SKF USA, and the issue of whether the goodwill in those marks inures to the benefit of SKF USA alone or to the SKF Group and AB SKF as a whole depends on whether there are "material differences" between the "authorized" SKF-brand bearings sold by SKF USA and the "unauthorized" SKF-brand bearings sold by Respondents, to be determined herein.

Issue I.A.2: Whether Complainant has the legal right to determine who has the authorization to import and/or sell SKF trademarked products in the United States?

Complainant's Position

SKF USA maintains that it has the legal right to determine who is authorized to import and/or sell after importation SKF bearings in the United States, provided that it can demonstrate a violation of Section 337 based on, *inter alia*, infringement of its registered trademarks through importation or sale after importation of materially different gray market SKF bearings. CIB 6. According to SKF USA, the authorized SKF bearings sold by SKF USA and its authorized distributors in the United States contain a bundle of special characteristics (both physical and non-physical in nature) that make them materially different from the gray market SKF bearings peddled by Respondents. CRB 17.

SKF USA rejects Respondents' contention that where a U.S. mark holder and a foreign manufacturer are under common control, importation of genuine trademarked goods from that manufacturer is legal regardless of the U.S. mark

holder's authorization or consent. CRB 17. The critical question in this regard, SKF USA maintains, is not common control, but rather whether the products imported and sold by the U.S. mark holder and the gray marketers are materially different, and therefore not "genuine." CRB 17-18. SKF USA also rejects Respondents' contention that, as a result of the alleged common control of SKF USA and the SKF Group, AB SKF has self-help mechanisms available to ensure that SKF bearings sold abroad will not be placed in domestic competition with authorized SKF bearings. CRB 20. The only way to engage in "self-help," SKF USA counters, would be to lower its prices by engaging in the very same business practices that Respondents employ to degrade the SKF trademarks. *Id.* That Respondents free-ride on SKF USA's efforts to maintain the positive image of its trademarks in the United States not only tarnishes those marks, SKF USA argues, but also makes it impossible for SKF USA to protect its goodwill short of employing the U.S. trademark laws. *Id.*

SKF USA also rejects Respondents' contention that the "first sale" doctrine and the "nominative fair use" doctrine protect its sales. CRB 22-24. According to SKF USA, those defenses apply in situations of resale of unaltered, genuine goods, not materially different goods as is the case here. *Id.*

Respondents' Position

According to Respondents, although SKF USA may authorize certain entities to act as its own authorized distributors, U.S. trademark laws (namely, the doctrines of common control, first sale, and nominative fair use) provide that it does not have the legal right to prohibit third party

importation, sale, or offering for sale of genuine SKF trademarked bearings manufactured by foreign SKF manufacturing units for the global market. RIB 8; RRB 8-10. Respondents argue that where a U.S. mark holder and a foreign manufacturer are under common control, as in the present case, importation of genuine trademarked goods from that manufacturer is legal, regardless of the U.S. mark holder's authorization or consent. RIB 9, *citing K Mart*, *supra*, 486 U.S. at 301, and *Weil Ceramics & Glass v. Bernard Dash*, 878 F.2d 659, 668 (3rd Cir.), *cert. denied*, 493 U.S. 853 (1989) ("Weil"); RRB 9. Respondents also contend that the first sale doctrine also unequivocally authorizes further downstream sales within the U.S. market of "authorized" SKF bearing's imported or manufactured by SKF USA and sold by SKF USA, SKF USA's Chicago Rawhide division, or SKF USA's authorized distributors, without regard to SKF USA's alleged policies and procedures. RRB 10. In this case, Respondents argue, SKF USA is attempting to serve its own anticompetitive ends by seeking an order barring all but its own importation of SKF bearings, regardless of the fact that such bearings are manufactured by the SKF Group for the global market, to global standards, and with packaging materials written in English. RIB 11.

Commission Investigative Staff's Position

Staff points out that the Commission can bar the importation and sale of gray market SKF brand bearings under Section 337 if the gray market bearings are materially different from the SKF brand bearings authorized for sale by SKF. SIB 18; SRB 5-6. The key question, Staff argues, is whether or not there are "material differences" between the

gray market products and the products authorized for sale. SIB 19; SRB 6. The Staff also notes that the Commission has held that "[t]he existence of material differences creates a legal presumption that consumers are likely to be confused as to the source of the gray market product, resulting in damage to the markholder's goodwill." SIB 19, *quoting Tractors*, *supra*, Commission Violation Opinion at 6; *also citing Cigarettes*, *supra*, Initial Determination at 7-8. Staff concludes that SKF USA has the legal right to determine who is authorized to import and/or sell SKF trademarked products in the United States, and can prevail under Section 337, if it can show "material differences" between its authorized products and the accused products. *See* SRB 7.

Discussion, Analysis, and Conclusion

Whether the "common control" exception left standing by the Supreme Court's decision in *K-Mart* is applicable to a §337 proceeding is, as noted above, ambiguous. The current law of this Circuit is that it is not. *Gamut Trading*, *supra.*

Otherwise, Respondents are asking the undersigned to merely assume that their accused products are identical to SKF USA's products, thereby adopting without further factual analysis the Third Circuit's ruling in *Weil*, *supra*, that the Lanham Act does not protect "a foreign manufacturer — that either owns or is owned by a domestic trademark holder — from competition in the sale of its product in the Untied States by a domestic importer that it has supplied" when the gray market product is identical to the authorized product. *See Weil*, *supra*, 878 F.2d at 668 and 668 n.11.

To take this approach would invite error by assuming away what Complainant must prove in this case in order to demonstrate a violation of Section 337. Respondents ignore the Commission's controlling precedent that was laid down by the Federal Circuit in *Gamut Trading*, *supra*, that "when there are material differences between the domestic product and the foreign product bearing the same mark, most of the courts that have considered the issue have excluded the gray goods, *even when the holders of the domestic and foreign trademarks are related companies*, on the grounds of both safeguarding the goodwill of the domestic enterprise, and protecting consumers from confusion or deception as to the quality and nature of the product bearing the mark." *Gamut Trading*, *supra*, 200 F.3d at 779 (emphasis added). "The courts have applied a low threshold of materiality, requiring no more than showing that consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product," the Federal Circuit further held in *Gamut Trading*, and this criterion "readily reconciles cases that have permitted parallel importation of identical goods, such as the Lladro figurines in *Weil Ceramics* (consumers not deceived, and no erosion of goodwill) and those that have barred importation based on material differences . . . ." *Id.*, 200 F.3d at 779-80.

Consequently, the determination of whether SKF USA has the legal right to determine who has the authorization to import and/or sell SKF trademarked products in the United States turns *ab initio* on whether there are material differences between SKF USA's authorized products and the Respondents' gray market products. If there are, then it does; if there are none, then it does not. The corporate relationship between SKF AB and SKF USA does not drive this decision.

Appendix C

Issue I.A.3: Whether the importation and/or sale by Respondents of imported bearings and/or packaging displaying the SKF trademarks at issue, constitutes a violation of section 1337 (*sic*) of the Tariff Act of 1930, as amended ("Section 337")?

Complainant's Position

SKF USA contends that Respondents' activities regarding gray market SKF bearings violate Section 337 by reason of registered trademark infringement under Section 32 of the Lanham Act (15 U.S.C. § 1114), common-law trademark infringement, and the following violations of Section 43 of the Lanham Act: trademark dilution (15 U.S.C. § 1125(c)), false designation of origin (15 U.S.C. § 1125(a)(1)(A)), false advertising (15 U.S.C. § 1125(a)(l)(B), and passing off (15 U.S.C. § 1125(a)). CIB 7.

Respondents' Position

According to Respondents, their importation and/or sale of imported bearings and packaging displaying the SKF trademarks at issue is permitted under Section 337 because such use of the SKF trademarks does not constitute trademark infringement and does not otherwise constitute actionable unfair methods of competition or unfair acts in importation. RIB 16. Respondents argue that in order to show a violation of trademark law, SKF USA must demonstrate, by a preponderance of the evidence, that the SKF bearings at issue are "materially different" from the "authorized" SKF bearings imported, sold, or offered for sale by SKF USA itself. RIB

16-17. According to Respondents, proof of "material" differences leads to a rebuttable presumption of infringement, because it is presumed that consumers expect certain product characteristics when they encounter a particular mark and are likely to be confused when the mark is affixed to a product with different characteristics. RIB 17. However, they argue, evidence that the differences at issue are not, in fact, significant to an appreciable number of relevant consumers and, accordingly, that there is no cognizable consumer confusion or damage to the goodwill of the trademark, effectively rebuts the presumption established by a showing of "material differences." RIB 17-18. Respondents contend that the evidence demonstrates that the differences alleged by SKF USA do not rise to the required level of materiality and do not survive scrutiny for showing gray market trademark infringement. *See* RIB 18-23.

Commission Investigative Staff's Position

Staff takes the position that a violation of Section 337 has occurred with respect to the SKF-brand products imported and/or sold after importation by the Respondents in this investigation. SIB 21. Staff believes that some, but not all, of the allegations made by SKF USA identify actual "material differences" that are sufficient to support a fording of trademark infringement. *Id.* These are the evidence of material differences between SKF USA's authorized products and Respondents' unauthorized products in connection with: (i) technical and engineering support; (ii) warranties; and (iii) services and information available as to recalls. SIB 21-22.

Appendix C

Discussion, Analysis, and Conclusion

For the reasons set forth in connection with Issue I.B. below, Respondents' gray market imports and sales of SKF-brand bearings infringe SKF USA's trademarks by reason of certain material differences between SKF USA's authorized products and Respondents unauthorized products.

Issue I.B: Material Differences

Issue I.B.1: Whether the proper basis of comparison for material differences purposes is limited to that of Respondents' operations to Complainant's operations, or whether such comparisons should encompass a broader comparison of Respondents' operations to Complainant's authorized distribution channels?

Complainant's Position

According to SKF USA, only its own operations, not the operations of its authorized distributors, are a proper point of comparison for a material differences analysis. *See* CIB 8. SKF USA contends that Respondents have chosen "fourteen counsel-selected branches" of SKF USA's authorized distributors in an attempt to show that the operations of these branches are as bad as those of Respondents. *Id.* This approach, according to SKF USA, is in contrast to SKF USA's focus upon the overwhelmingly positive aspects of its operations compared to the questionable operations of Respondents. *Id.*

Appendix C

At a minimum, SKF USA argues, Respondents BL and CST should be compared only to SKF USA's own distribution operations and not to the operations of its authorized distributor branches, because those Respondents sell only to other distributors, not to end users. CM 8-9. SKF USA also contends that BL and CST do not sell to aftermarket customers; like SKF USA, they sell to distributors. CRB 26. If it is assumed that SKF USA's authorized distributors should be considered, SKF USA contends, then the distributor customers of BL and CST should also be analyzed, particularly the very large number of unauthorized distributors that purchase gray market SKF bearings from them. CRB 26. As for McGuire and Bohls, SKF USA contends, their operations should be compared to the operations of SKF USA and its authorized distributors at an appropriate level. CIB 9. SKF USA also faults Respondents for failing to present evidence concerning material differences in quality control between the operations of SKF USA and its authorized distributors on the one hand and the operations of Respondents on the other. CIB 9-10.

In addition, SKF USA contends, its operations for purposes of comparison of material differences should not include its Chicago Rawhide division ("Chicago Rawhide" or "CR"). CIB 8. The activities of CR, according to SKF USA, are irrelevant to this investigation. CIB 10. According to SKF USA, CR primarily manufactures and sells oil and gas seals. CIB 11. Second, SKF contends, over [ ] percent of CR's SKF bearings sales are made into a unique channel of distribution — the vehicle service market ("VSM"), also known as the automotive aftermarket (for cars) and heavy duty aftermarket (for trucks and other commercial vehicles).

Id. None of the Respondents has claimed to be a player in the automotive or heavy duty aftermarket, according to SKF USA. *Id.* Third, SKF contends, CR sells SKF bearings in packaging not covered by the two design marks at issue in the Complaint. CIB 11.

Even if CR's operations are included for purposes of the material differences analysis, SKF USA maintains, its material difference claims should prevail. CIB 8. In 2001, SKF USA argues, CR's sales of SKF bearings into the industrial aftermarket were only $[ ] representing less than [ ] percent of CR's total sales of SKF bearings amounting to $[ ] million in 2001. CIB 13-14. Moreover, SKF USA contends, when compared to its overall sales of SKF bearings in all markets in 2001, which amounted to almost $[ ] million, the industrial aftermarket sales of CR constitute only [ ] percent of that total. CIB 14. Thus, SKF USA maintains, if CR's activities are found to reflect on its trademarks, they are minimal and no owner-inflicted dilution can be attributed to them. *See id.* Further, SKF argues, if CR's $[ ] million in sales of SKF bearings into the VSM are considered relevant, then they only constitute [ ] percent of SKF USA's total sales of $[ ] million (*i.e.*, the total of SKF USA's industrial aftermarket sales and CR's VSM sales), which SKF USA contends is below the threshold permitted under relevant law. *Id., citing Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 7-8 and n.1 (2d Cir. 1996) ("*Warner-Lambert*") (that 4.4% of plaintiff's products were found to be past freshness date did not defeat preliminary injunction in infringement action).

Appendix C

Respondents' Position

According to Respondents, relevant purchasers of SKF-brand bearings include authorized and unauthorized distributors as well as end-users. RIB 25. Respondents argue that because the SKF bearings imported by Respondents are sold almost entirely in the aftermarket for replacement bearings, and because the majority of sales in the aftermarket take place through distributors (as opposed to direct sales by the manufacturer), the relevant consumers are those who purchase bearings from bearing distributors. RIB 24. Respondents point out that sales to these relevant aftermarket consumers can involve multiple parties before the product reaches the end user, and SKF USA's authorized distributors play a seminal role in marketing and selling SKF products. *Id.*

Respondents argue that SKF USA's authorized distributors sell both to end users and to non-authorized distributors, and several Respondents also sell bearings, including imported SKF bearings, to end users and non-authorized distributors. RIB 24. In addition, Respondents contend that they often sell imported SKF bearings to SKF USA's authorized distributors. *Id.* Thus, Respondents contend, the "material differences" analysis must focus on sales to authorized and unauthorized distributors as well as end-users. RIB 25. It is also relevant, Respondents maintain, to compare Respondents' sales of imported bearings with sales of "authorized" SKF bearings by other downstream resellers, such as other distributors and original equipment manufacturers ("OEMs"). *Id.*

Respondents also contend that CR's sales of SKF-brand bearings should also be compared. RRB 17 and 20-23. CR. is an operating unit of SKF USA and is therefore part of its operations, Respondents maintain. RRB 20. CR sold $[ ] million worth of bearings in the U.S. in 2001, including SKF bearings, in packaging prominently displaying the SKF trademarks at issue in this case, Respondents argue. *Id.* However, Respondents argue, CR does not sell through any "authorized" distribution network and has freely sold bearings in the "ordinary course" to some of the Respondents. RRB 21. According to Respondents, SKF USA has steadfastly attempted to exclude evidence pertaining to CR because its operations so clearly reveal that SKF USA's alleged policies and procedures do not, in fact, consistently attend sales of "authorized" SKF bearings. *Id.*

Commission Investigative Staff's Position

According to Staff, when determining whether material differences exist, it is proper to compare the products that the trademark holder authorizes for sale in the United States (that is, the products that the trademark holder puts on the market) with the products that the Respondents sell in the United States (that is, the products that the alleged infringers put on the market). SIB 23. Staff therefore believes that it is proper to include the goods sold by SKF's authorized distributors — goods that are by definition authorized for sale by SKF — when determining if there are material differences between the authorized products and the gray market products. *Id.* Specifically, Staff says that the appropriate course is to compare the bearings authorized for sale in the United States by SKF USA, regardless of the

channel through which they are sold (*i.e.*, whether by SKF USA itself, by SKF USA's divisions, or by SKF USA's distributors or licensees), with the bearings not authorized for sale by SKF USA (*i.e.*, the gray market bearings imported and sold by Respondents). SIB 24-25.

With regard to certain types of sales, however, Staff does not fully accept the views of either SKF USA or Respondents. SRB 9. Staff contends that the correct level of comparison in a gray market case is between the products that the trademark holder authorizes for sale, because these will reflect the quality that consumers associate with the trademarks, and the gray market products that the trademark holder does not authorize for sale. *Id.* Thus, Staff argues, the products sold by authorized distributors and by CR must be considered when comparing post-manufacturing quality control, packaging and labeling, and promotions. *Id.* These sales are, by definition, authorized by SKF USA, and "predictably" involve goods of the quality that SKF USA feels content to bear its trademarks. *Id.* However, Staff does not believe that all sales of SKF USA's products must be considered, including sales not authorized by SKF USA, such as sales by OEMs and unauthorized distributors. SRB 10. SKF USA's point of sale is to OEMs when it sells directly, Staff maintains, or to its distributors' customers when it sells through distributors, and SKF USA cannot control the product past that point. *Id.* Hence, Staff argues, further unauthorized resales clearly have no relationship to the quality SKF USA wishes to establish for its trademarks in the minds of those who purchase from it. *Id.*

Appendix C

Discussion, Analysis, and Conclusion

SKF USA does not seek a remedy under Section 337 only for bearings that are sold in the industrial aftermarket. It seeks total relief that applies against all gray market imports and sales of SKF-brand bearings in *all* United States markets, including the industrial aftermarket, the VSM, the OEM market, the distributor market and the end-user market. *See* CIB 294.[5] SKF USA seeks a general exclusion order, not a limited one, and such a remedy, if issued, would affect all U.S. markets and all U.S. importers, not just the U.S. markets served by the named Respondents. *See id.* Since the relief SKF USA seeks is against trademark infringement in all U.S. markets, the comparison of material differences cannot fairly be limited to the industrial aftermarket alone or to SKF USA's direct sales alone, because the likelihood of confusion for which that comparison is a proxy occurs to purchasers at the point of sale in all U.S. markets and would be affected by the requested remedy across the board. *See Batteries, supra*, 225 U.S.P.Q. at 834-35 (actionable confusion in gray market context relates to "efficacy of goods to fulfill the U.S. consumer's reasonable expectations"; whether alleged differences are "material" is evaluated through a consumer's expectations at the point of sale).

As with all such cases, the benchmark for trademark infringement is the "likelihood of confusion" test. *Weiss*

---

5. Specifically, SKF USA seeks, *inter alia*, a general exclusion order covering "all bearings and/or packaging thereof displaying any one of the four marks at issue that have been imported by an entity other than SKF USA or an entity authorized by SKF USA to engage in such importation." CIB 294.

Associates, *supra*. One type of consumer confusion that is remedied by trademark and unfair competition law, and is at issue in this case, is a product's "source of origin." *Batteries*, *supra*, 225 U.S.P.Q. at 835. "[S]ource of origin' does not mean only manufacturer, but also the distribution chain." *Id.* In that connection, "a 'genuine' article to the modern consumer connotes not only the source of manufacture but also the chain of selection, distribution and servicing upon which he has been able to rely in the past." *Id.*, 225 U.S.P.Q. at 835 n.67, *quoting* R. Callman, *Another Look at the Unlawful Importation of Trademarked Articles*, 52 Trademark Rep. 561 (1962). Thus, a proper trademark infringement analysis cannot automatically be truncated at any particular level of the chain of distribution, nor can it be restricted to any particular channel of distribution. Instead, it must be applied down the entire chain and across all channels to reach all purchasers who rely upon the trademark as a symbol of a product's source. *Cf. Ty Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002) ("The fundamental purpose of a trademark is to reduce consumer search costs by providing a concise and unequivocal identifier of the particular source of particular goods.").

The evidence of record indicates that, because the majority of SKF bearings are sold in the aftermarket for replacement bearings, and because the majority of sales in the aftermarket take place through distributors as opposed to direct sales by the manufacturer, the relevant consumers are those who purchase bearings from bearing distributors. *See*, *e.g.*, Kaplan, Tr. 1870:1-3 (sales of SKF USA); Magray, Tr. 3077:19-3078:2, 4878:13-24 (sales of Bearings Limited); Ian McGuire, Tr. 3182:20-3183:1, 3203:19-23 (sales of

McGuire's Triple Phase division); Headrick, Tr. 5540:17-25 (sales of Motion Industries, an authorized SKF USA distributor); **FF 1**. SKF USA's expert witness, Kaplan, also acknowledged that SKF USA's authorized distributors play a role in marketing and selling SKF products. Kaplan, Tr. 1839:9-18; **FF 2**. Thus, the point of sale at which an infringement analysis of "material differences" should focus is at the bearing distributor level on end-users of replacement bearings and intermediate distributors who also sell to end-users of replacement bearings, for that is where consumers are "likely to consider the differences between the foreign and domestic products to be significant." *Gamut Trading*, *supra*, 200 F.3d at 779.

SKF USA offers no real reason for its position that the proper point of comparison should not include its own authorized distributors at this level. Its only quarrel on this score is that Respondents have allegedly picked "fourteen counsel-selected branches of SKF USA's authorized distributors" to try to show that those entities' operations are "just as bad as those of Respondents." CIB 8. However, disputing Respondents' choice of proof does not sufficiently justify SKF USA's contention that its own definition of the appropriate point of sale to examine is more relevant than Respondents' for the purpose of determining what the right "material differences" between authorized and unauthorized products are in the mind of a purchaser.

It must be borne in mind that two of the Respondents are themselves former authorized distributors of SKF USA that were terminated — Bohls in 1998, and McGuire in 2001 (as a distributor in SKF USA's MRC unit). Bohls, Tr.

3467:18-20; Gelke, Tr. 5142:20-5147:15, 5165:5-7; RX-2090; **FF 3**. Thus, at least these Respondents, and presumably the others, stand the same position in the chain of distribution that SKF USA's authorized distributors occupy. SKF USA offers no explanation as to why these Respondents, or any of the other Respondents, should be compared to SKF USA, which occupies a higher level in the distribution chain, when all that appears to have happened when SKF USA terminated these distributors is that they replaced SKF USA with a comparable foreign SKF vendor occupying the same position in the distribution chain as SKF USA in order to continue competing at the same level as SKF USA's authorized distributors.

A sub-issue is whether the SKF bearings sales of SKF USA's Chicago Rawhide division should be included in the "material differences" analysis. CR is a division within SKF USA that sells SKF bearings primarily in the VSM for cars, trucks and other commercial vehicles. Diggory, Tr. 4762:11-15, 4763:9-14; **FF 4**. CR does not sell SKF bearings to OEMs, but rather sells them only to aftermarket customers for replacement applications. Diggory, Tr. 4756:24-4747:3; Clark Tr. 1742:11-13; **FF 5**.[6] Although CR does not utilize the SKF

6. The evidence in the record that Respondents purport to show their participation in the VSM market for SKF bearings does not support their claim. Counsel for Respondents represent in their "Joint Proposed Rebuttal Findings of Fact" that McGuire, BL, Bohls and CST sell SKF bearings extensively in the VSM. *See* Respondents' Joint Proposed Rebuttal Findings of Fact ¶¶ 2052-2056 (February 10, 2003). However, the evidence as to McGuire, BL and CST that they cite is derived from certain exhibits in Joint Stipulation No. 11 and elsewhere that contain nothing more than lists of thousands of

(Cont'd)

registered design marks on its bearings and packaging, it nevertheless displays the SKF registered word marks on those products even more prominently than the name "Chicago Rawhide." *Compare* RPX-2016 (CR packaging and enclosed SKF 6212-2RSJ bearing), Diggory, Tr.5707:6-14 *with* CPX-299, CPX-300, CPX-30 1 and CPX-302 (the two SKF word marks and two SKF design marks); DeBorde, Tr. 4024:23-4025:17; **FF 6**.

(Cont'd)
sales to customers of McGuire and BL of foreign-manufactured SKF bearings, some of which counsel for Respondents merely argue are sales to VSM customers for no other discernible reason than that their names include some connection to automobiles. *See id.* ¶ 2052-2053; *citing* Joint Stip. No. 11, Attachments A, B, C (CX-280C, CX-281 C, CX-282C) (representing that McGuire sales identified in these exhibits include extensive sales (*i.e.*, not incidental) of SKF bearings to 126 different aftermarket customers in the automotive, truck and trailer area); CX-1522C and CX-0129C (representing that BL sells SKF bearings to distributors in the automotive and truck area). As for Bohls, counsel for Respondents represent that "Bohls sells products, including SKF bearings, into several different end uses within the aftermarket including for industrial applications and for automotive applications," citing Bohls, Tr. 3445:10-3449:1. *See id.* ¶ 2054. However, the cited testimony suggests that while Bohls sells automotive equipment, it does not sell *any* SKF bearings for automotive purposes. *See* Bohis, Tr. 3448:15-20. Such attorney argument, bearing no relationship to the testimony under oath of any witness at the trial having personal knowledge of the facts, is devoid of probative value. *See e.g.*, Fed. R. Evid. 602 ("A witness may not testify to a matter unless evidence is introduced sufficient to support a finding that the witness has personal knowledge of the matter.").

Appendix C

Although CR's focus is primarily on the automotive service market rather than the industrial aftermarket in which Respondents principally operate, that fact alone does not distinguish the types of purchasing decisions that CR's customers make from the purchasing decisions that customers of Respondents or customers of SKF USA's non-CR authorized distributors make. A customer can purchase an SKF bearing from CR as readily as he or she can from an authorized distributor of SKF USA. *See, e.g.*, Bergqvist, Tr. 404:19-21; **FF 7**. The fact that CR concentrates its marketing efforts on the VSM says nothing about the factors that uniquely influence a CR customer's purchasing decisions as opposed to a non-CR customer. SKF USA has offered no reason to conclude that a customer of CR would be less likely to be confused by a "material difference" between a CR bearing and the bearing of an authorized SKF USA distributor than a customer of any of the Respondents would be of the same "material difference" between such Respondents' bearing and a bearing of an authorized SKF USA distributor. It would be inappropriate on the basis of the facts of record, therefore, to exclude sales to CR's customers from the "material differences" analysis.

As Staff correctly observes, the basis for a trademark holder's claim of "material differences" is the type of goods that the trademark holder "predictably" allows into the marketplace because these are the goods that consumers will associate with the trademarks at issue. SIB 23-24, *citing Warner-Lambert, supra*, 86 F.3d at 7. If, as Staff points out, the trademark holder allows non-conforming goods to "predictably" reach the marketplace, then the trademark holder cannot be heard to complain that others' sales of the

same goods somehow damage its trademarks. SIB 24. Thus, if SKF USA's authorized distributors operate in ways that are "just as bad" as Respondents' ways, then SKF USA cannot call those ways "material differences" that are bad enough to justify excluding Respondents' products. The U.S. Court of Appeals for the Second Circuit made this point as follows:

> A company that avails itself of wholly effective [quality control] procedures will generally be entitled to relief [from trademark infringement] against any measurable sales of non-conforming goods. Sales of non-conforming goods will in those circumstances place poor quality goods where none were before and necessarily devalue the mark associated with them. A company with less effective quality control standards that predictably result in some sales of non-conforming goods will have a mark that reflects a value based on the presence in the marketplace of those goods. *To be entitled to relief against a later seller of non-conforming goods, such a trademark holder must show that the later sales measurably diminished the value of an already partially devalued mark.*

Warner-Lambert, *supra* (citations omitted; emphasis added).

At the same time, it is also true, as Staff points out, SKF USA cannot control the way in which its product is sold past its own point of sale, which is typically to OEMs (to whom it sells directly) and to its authorized distributors' customers (when it sells through those distributors). *See* SRB 10. Further

unauthorized sales past those points have no relationship to the quality SKF wishes to establish for its trademarks in the minds of those who purchase from it. *Id.* Consequently, "material differences" should be evaluated by comparing authorized goods to unauthorized goods, not by comparing authorized channels of distribution with unauthorized channels of distribution.

Accordingly, when determining whether material differences between goods are confusing consumers, the proper comparison is between (i) bearings authorized to carry the SKF trademarks that are sold by SKF USA and its authorized distributors, including those that are sold by Chicago Rawhide, and (ii) unauthorized gray market bearings that are imported into the United States and sold by Respondents. Further, the relevant purchasers for the purpose of analyzing "material differences" between SKF USA-authorized bearings and Respondents' unauthorized bearings are end-users of such products and resale distributors who buy such products from such sources in all markets, including the industrial aftermarket, the vehicle service market, and the OEM market. Relevant purchasers, however, do not include those who repurchase such products further downstream in the chain of distribution of any market.

Appendix C

Issue I.B.2: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on "physical differences"?

Complainant's Position

According to SKF USA, its authorized SKF bearings are materially different from Respondents' unauthorized SKF bearings by virtue of what SKF USA contends are the following "physical differences":

- SKF USA supplies its authorized distributors with "JEM" bearings as standard stock items that are pre-lubricated with a polyurea-based grease and contain a greater-than-standard internal clearance, known as a "C3 clearance." CIB 27. "JEM" bearings, according to SKF USA, have a longer bearing life, high temperature tolerance, and a higher margin of safety from a slightly "looser" fit. *Id.* By contrast, SKF USA contends, Respondents "never — or very seldom — sell JEM bearings." *Id.* Instead, SKF USA contends, Respondents "almost always" sell SKF pre-lubricated ball bearings containing lithium-based grease that has different chemical constituents, has a shorter life span, and has a lower temperature threshold than the polyurea-grease found in JEM bearings. *Id.*

- Respondents sell damaged and/or old bearings, whereas "there is no evidence that such bearings have been sold by SKF USA or its authorized distributors" because it has shelf-life guidelines. CIB 30.

- SKF USA has a policy against the industrial aftermarket sale in the United States of SKF bearings manufactured in Malaysia, driven by a purportedly "negative U.S. customer perception of products manufactured in Asia." CIB 34. Although Malaysian-made SKF bearings are not inferior bearings, SKF USA points out, some of SKF USA's customers have expressed dissatisfaction with receiving them due to their origin, and SKF USA's authorized distributors do not wish to sell them. CIB 35. Respondents, on the other hand, engage in the "indiscriminate importation and sale of gray market SKF bearings" that "threatens the effectiveness of SKF USA's policy regarding Malaysian-manufactured bearings." *Id.* These bearings, SKF USA contends, are etched with the word "MALAYSIA," whereas "none of the bearings sold by SKF USA to industrial aftermarket customers in the United States are similarly etched," thereby constituting a "physical difference" between the two. *Id.* SKF USA also notes that SKF spherical roller bearings made in Malaysia are ordinarily of the "E" design, whereas SKF USA frequently sells "CC" design sphericals to U.S. customers. CIB 35 n.33. This could cause problems if the U.S. customer, expecting a CC design, receives an E design instead, SKF USA alleges. *Id.* Further in this connection, SKF USA also points out that "whenever possible, SKF USA sells domestic manufactured products rather than imports" because "[t]he 'Made in the U.S.A.' sentiment is very real in the marketplace." CIB 36.

- Respondents "fail to understand SKF nomenclature, or use different nomenclature," actually resulting in the sale of physically different SKF bearings. CIB 36. For example, SKF USA argues, CST sells foreign-manufactured non-JEM quality SKF bearings to customers who specifically request JEM-quality SKF bearings. *Id.* Also, BL and McGuire sell bearings with non-metallic cages and lithium-based grease (SKF's European design 3200 series bearings) to customers who specifically request bearings with metallic cages and polyurea-based grease (SKF's U.S. design 5200 series bearings). GIB 37.

- Respondents sell SKF bearings with "etching and marking differences," such as bearings stamped "MA.LAYSIA," and markings with a felt-tip pen. CIB 37.

Respondents' Position

According to Respondents, SKF USA has imported, offered for sale, and sold the same types of bearings imported by Respondents; that possess all of the physical characteristics that SKF USA alleges are "material differences" between the authorized SKF bearings sold by SKF USA and the unauthorized SKF bearings sold by Respondents. RIB 29.[7]

Respondents contend that SKF USA sells substantial amounts of lithium-greased bearings that are suitable for many applications, including some electric motor applications.

7. Respondents raise several contentions having to do with allegations of material differences that were explored at trial but not raised by SKF USA in its post-hearing brief. Accordingly, these issues need not be reached.

See RIB 29-32. Respondents also contend that SKF USA imports from abroad, manufactures in the United States, and sells in the United States substantial amounts of bearings with non-metallic cages. *See* RIB 32-34. Respondents also contend that no specific clearance is proper for electric motor applications, and that Respondents have sold many bearings with C3 clearances. *See* RIB 34-35. Respondents also contend that SKF USA's JEM policy often is not followed, and that authorized distributors have sold non-JEM bearings even when advised on the order that the bearing sought to be purchased is "for electric motor use." *See* RIB 35-37.

As for damaged and aged bearings, Respondents contend that such differences are a matter of quality control rather than a physical difference, and therefore is discussed elsewhere. *See* RIB 37. Concerning SKF bearings manufactured abroad, Respondents contend that over half of the SKF bearings sold by SKF USA have been from foreign manufacturing facilities. *See* RIB 41-43. With regard to SKF bearings manufactured in Malaysia, Respondents contend that SKF USA itself sells many such bearings through its own channels as well as through its CR distribution channel, as do its authorized distributors. *See* RIB 45-46. Further, Respondents argue, customers do not consider SKF bearings from Malaysia to be materially different from SKF bearings made by any other SKF MU. *See* RIB 46. As for "E"-type spherical roller bearings that come from Malaysia, Respondents contend that SKF USA itself has made sales of such bearings. *See* RIB 47.

With regard to alleged material differences in etchings and markings, Respondents argue that the supposedly

different etching patterns are found on bearings from SKF USA and CR as well as on bearings from Respondents. *See* RIB 48. Finally, with regard to nomenclature, Respondents maintain that these are product labeling differences, not physical differences, and that nomenclature differences are based on industry "interchange" guides which cross-reference the part numbers of various manufacturers. *See* RIB 49-53.

Commission Investigative Staff's Position

According to Staff, the evidence of record does not support SKF USA's assertions that there are physical differences between SKF USA's authorized bearings and the gray market bearings. SIB 25. In fact, Staff argues, the evidence actually shows that Respondents import exactly the same bearings that SKF USA imports from its foreign MUs and sells in the United States under the SKF trademarks. *Id.* "Physical differences," the Staff maintains, encompass only differences that are integral to or inherent in the product itself, and SKF USA has not demonstrated the existence of any differences in the bearings themselves. SIB 26. Thus, the law is clear that when products are identical, the importation of identical gray market products does not constitute trademark infringement. *Id.*

In connection with JEM bearings, Staff argues, SKF USA sells many bearings with non-metallic cages, other internal clearances, and non-polyurea greases. SIB 27. Such bearings are suitable for many applications, including some electric motor applications, Staff contends. *Id.* The fact that Respondents have allegedly sold the same bearings for

different purposes does not somehow change the integral characteristics of such bearings so as to render them "physically different." *Id.* Similarly, with bearings' age and condition, there is no evidence that Respondents are importing aged or damaged bearings, Staff contends. *Id.* Moreover, if this is a difference, Staff contends that keeping bearings past their intended shelf life is a difference in quality control, not a physical difference. SIB 27-28. Regarding bearings manufactured in Malaysia, Staff argues that SKF USA itself imports numerous Malaysian bearings and sells them at all levels of the market, including to its authorized distributors, and has not shown that these are different from the bearings imported by Respondents. SIB 28. Regarding etchings on the bearings, Staff maintains that there is no evidence of such differences, nor any evidence that consumers would find such differences to be material. SIB 29.[8]

Discussion, Analysis, and Conclusion

The Commission has held that a "physical difference" for purposes of the "material differences" analysis of gray market trademark infringement is a difference in "an integral part" of the authorized and unauthorized products. *Tractors*, Commission Violation Opinion, *supra* at 9. It cannot be some other, non-physical difference, such as a difference in the availability of replacement parts, service, or operator's manuals. *Id.* If a trademark holder sells a trademarked product

8. Like Respondents, Staff raises several contentions having to do with allegations of material differences that were explored at trial but not raised by SKF USA in its post-hearing brief. Accordingly, these issues need not be reached.

having an integral part that is the same as one in a gray market trademarked product, that part cannot be a called a "material physical difference" justifying a finding of infringement by the gray market product. *See, e.g., Martin's Herend, supra,* 112 F.3d at 1302, 1304 (finding trademark infringement in the sale of physically different imported products, but allowing for the sale of identical imported products because they are "genuine" trademarked products); *Nestle, supra,* 982 F.2d at 641 ("when a product *identical* to a domestic product is imported into the Untied States under the same mark, no violation of the Lanham Trade-Mark Act occurs") (emphasis in original); *Weil, supra,* 878 F.2d at 668 (finding no infringement where "the LLADRO porcelain that Jalyn imports is *identical* to the porcelain that Weil distributes") (emphasis in original).

Of the characteristics of SKF bearings that SKF USA identifies as "material physical differences" between its authorized products and Respondents' unauthorized products, several are not "physical" at all. The shelf life of a bearing is not an integral part of a bearing; it is only indicative of an inventory policy, which is a quality control issue, not a physical difference. The same is true of SKF USA's alleged nomenclature differences. Accordingly, these alleged differences will be dealt with under the quality control material difference issue to be dealt with later herein.

Other characteristics of SKF bearings that SKF USA identifies as "material physical differences" are indeed integral parts of the products, but the evidence overwhelmingly shows that SKF USA also sells the exact same products that Respondents sell. The parties have

stipulated that SKF USA sells substantial amounts of lithium-greased bearings in particular product code categories, not just polyurea-based JEM bearings in that category. As Respondents point out, from 1997 through March 2002, SKF USA's sales of bearings with lithium-based grease totaled $[ ]. *See* Jt. Stip. No. 3, ¶ 6; RX-8042C, p. 2; Bloch, Tr. 2597:25-2598:4; **FF 8.** Of this amount, approximately $[ ] million represents sales of lithium-greased bearings directly to the electric motor industry, contrary to SKF USA's contention that it does not authorize such sales. *See* Jt. Stip. No. 3, ¶ 6; RX-8042C, Tables 5 & 6, pp. 21-24; **FF 9.** More than $[ ] million represents sales of lithium-greased ball bearings to SKF USA's authorized distributors. *See* Jt. Stip. No. 3, ¶ 6; RX-8042C, Table 2, p. 3; **FF 10.** In addition, SKF USA made sales or transfers of lithium-greased bearings to its Chicago Rawhide division in the amount of approximately $[ ] million from 1997 through March 2002. *See* Jt. Stip. No. 3, ¶ 14; RX-8048C, Table 1, p. 2; **FF 11.**

As for bearings made in Malaysia, there is anecdotal evidence in the record that at least some American customers prefer U.S.-made bearings over foreign-made bearings, particularly Asian-made bearings. *See* James Huncha, Tr.835:24-836:2,839:19-840:8, 843:1-10; John Huncha, Tr.855:4-23, 860:25-861:8; **FF 12.** However, the evidence also shows that such prejudices have not precluded SKF USA from importing and selling substantial numbers of foreign-made bearings, including Malaysian bearings, for a long time. The parties have stipulated that SKF USA has sold $[ ] of bearings from Malaysia from some point in 1999 through March 2002, $[ ] of which were sold to SKF USA's authorized distributors. *See* Jt. Stip. No. 3, ¶¶ 1 and

3; RX-8039C, Tables 1 & 2, at pp. 2-3; **FF 13**. During this period, SKF USA also sold or transferred to CR SKF bearings manufactured in Malaysia totaling $[ ]. *See* Jt. Stip. No. 3, ¶ 11; RX-8046C, Table 1, p. 2; **FF 14**. SKF USA's sales data did not include country of manufacture prior to March 1999, so it is not possible to determine the extent to which SKF USA sold Malaysian bearings prior to that time. Bergqvist, Tr. 399:3-19; **FF 15**. Moreover, Chicago Rawhide does not track country of manufacture in its sales files either. *See* Jt. Stip. No. 4 ¶ 2; **FF 16**.

Further, the parties have stipulated that SKF USA has made sales of E-type spherical roller bearings that total $[ ] for the period from 1997 through March 2002. Of this amount, $[ ] represents sales to SKF USA's authorized distributors. *See* Jt. Stip. No. 3, ¶ 4; RX-8040C at 1; **FF 17**. SKF USA's sales of E-type spherical roller bearings include $[ ] of sales of such bearings that were manufactured by SKF in Malaysia, of which $[ ] represents sales by SKF USA to its authorized distributors. *See* A. Stip. No. 3, ¶ 4; RX-8040C at 10-11; **FF 18.** Also, SKF USA's sales or transfers of E-type spherical roller bearings to CR totaled $[ ]. *See* Jt. Stip. No. 3, ¶ 12; RX-8029C, Table 1, p. 2; **FF 19**.

Also stipulated by the parties is the fact that SKF USA imports substantial quantities of bearings made by its foreign Group MUs in addition to bearings that are made in the U.S.A. Over [ ]% of the bearings sold by SKF USA in the past five years were manufactured abroad. *See* Jt. Stip. No. 3, ¶ 2; RX-8038C, Table 1, p. 2; **FF 20**. Similarly, over [ ]% of SKF USA's sales to its authorized distributors over

the past five years were imported, foreign-made SKF bearings. *See* Jt. Stip. No. 3; RX-8038C, Table 2, p. 3; **FF 21**. These sales figures do not include sales or transfers by the SKF USA Bearings Unit to SKF USA's Chicago Rawhide division. Over [ ]% of the bearings sold or transferred to CR during the past five-year period were imported by SKF USA. *See* Jt. Stip. No. 3, ¶ 10; RX-8045C, Table 1, p. 2; **FF 22**. In addition, CR has imported directly at least $[ ] million of foreign-made SKF bearings each year. Bergqvist, Tr. 404:25-405:9; **FF 23**. The SKF USA sales data for the last five-year period shows that it has imported foreign-made bearings from the following countries: Argentina, Austria, Belgium, Brazil, Canada, China, Czech Republic, Finland, France, Germany, Holland, Hungary, India, Italy, Japan (Japan), Japan (Singapore), Japan (Taiwan), Korea, Malaysia, Mexico, Poland, Serbia, Slovakia, Slovenia, South Africa, Spain, Sweden (including a separate entry for Katrineholm, Sweden), Switzerland and the United Kingdom *See* Jt. Stip. No. 3, ¶ 3; RX-8039C, Table 3, p. 4; **FF 24**.

Thus, there is really no physical difference at all between many of SKF USA's SKF-brand bearings and Respondents' SKF-brand bearings. And, there is no gray market trademark infringement on this basis, because "[a]s long as plaintiffs have ever approved a piece for importation and sale in this country, [defendant] is free to sell any individual piece of the same quality from the same product line." *Martin's Herend*, *supra*, 112 F.3d at 1304.

If some, but not all, of the SKF-brand bearings that SKF USA sells are physically different from the SKF-brand

bearings that Respondents sell, that still would not prove that Respondents infringe SKF USA's trademark. When discussing, in the context of a gray market Section 337 infringement proceeding, how to compare disparate models of authorized versus unauthorized products as part of a "material differences" analysis, the Commission in its Violation Opinion in *Tractors* noted that "[s]ome courts have relied on generalized findings with respect to a group of products. [citations omitted]. Other courts have addressed differences on a product-by-product basis. [citation omitted]." *See Tractors*, Commission Violation Opinion, *supra* at 14 n.52. Thus, the Commission in *Tractors* ruled, there is no legal requirement to perform a model-by-model comparison of the physical differences between authorized products and unauthorized products. Nevertheless, the Commission sustained the Administrative Law Judge's Initial Determination on the facts in *Tractors* that the evidence failed to show "that any of the 20 [unauthorized] KBT models . . . is materially different from *the closest corresponding [authorized] KTC model*, with respect to any of the differences found to be 'material' in the ID," save one non-physical material difference. *Id.* (emphasis added).

Likewise here, SKF USA has made no factual showing that there is any *generalized* material physical difference between *all* of its authorized SKF-brand bearings and *all* of Respondents' unauthorized SKF-brand bearings. SKF USA has also made no effort to show that there is any material physical difference between *any* of its authorized SKF-brand bearings that correspond most closely to *any* of Respondents' unauthorized SKF-brand bearings. Rather, SKF USA's arguments that there are material physical differences

between its authorized SKF-brand bearings and Respondents' equivocate with all sorts of qualifying remarks that fall far short of a showing of a consistent pattern of infringement. For example, with respect to JEM bearings, SKF USA states that "the evidence demonstrates that Respondents *never — or very seldom — sell JEM bearings.* Instead, they *almost always* sell SKF pre-lubricated ball bearings containing lithium-based grease." CIB 27 (emphasis added). In another example concerning sales of bearings in particular product codes, SKF USA goes only so far as to say that it "sells *approximately* [ ]% of the authorized SKF bearings in these series as JEM bearings," whereas "Respondents sell *either very few or none.*" CIB 28 (emphasis added). Moreover, there is no connection whatsoever between the purported prejudices of some American customers against foreign-made bearings and SKF USA's practice of selling a substantial number of foreign-made bearings that leads to any notion of a material difference. SKF USA's equivocal assertions and *non sequiturs*, in light of the substantial stipulated evidence in the record that SKF USA sells large numbers of SKF-brand bearings that do not differ at all from what Respondents sell, fail to fulfill SKF USA's burden of proving infringement on the basis of material physical differences.

Substantial and probative record evidence demonstrates that SKF USA sells authorized SKF-brand bearings that are no different physically from the unauthorized SKF-brand bearings that Respondents sell. Accordingly, since Respondents "unauthorized" SKF bearings are identical to SKF USA's "authorized" SKF bearings in their origin and physical characteristics, there is no gray market trademark infringement on this ground. *See Gamut Trading*, *supra*, 200

F.3d at 778-79; *Weil*, *supra*, 878 F.2d at 672 ("[t]here is no need to protect the consumer against confusion when the goods imported by the defendant are identical to the goods imported by the United States trademark holder."). Therefore, it must be concluded that physical differences do not constitute "material differences" justifying a finding of gray market trademark infringement.

Issue I.B.3: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those sold imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in quality control, such as post-manufacturing quality control — including sources of supply, quality control systems, shelf-life standards, and warehousing controls?

Complainant's Position

According to SKF USA, authorized SKF bearings are materially different from Respondents' unauthorized SKF bearings because of what SKF USA contends are the following "quality control" differences:

- *Direct access to the source of supply.* SKF USA procures all of its SKF bearings directly from the factory. CIB 41. According to SKF USA, this is "meaningful because such a capacity allows SKF USA to know and control the specifications for what it orders, when, how much, *etc.*"

CIB 43. By contrast, since Respondents do not buy SKF bearings directly from the factory, SKF USA argues that Respondents "lack such knowledge and control . . . [which] in turn leads to some of the material differences." *Id.*

- *Control of the distribution chain from the factory to the first U.S. warehouse.* Given that SKF USA enjoys direct access to the source of supply, with shipment straight to the central warehouse in Crossville, Tennessee, and given that Respondents do not, SKF USA contends that Respondents "cannot ensure that appropriate handling procedures are followed . . . because Respondents either do not know the identity of the various links in the supply chain, or cannot control them (even if they are known)." CIB 44.

- *Control of the transport packaging from the factory to the first U.S. warehouse.* SKF USA contends that all SKF bearings shipped to SKF USA must conform to certain standards, *i.e.*, they must be shipped "in a specific type of wooden pallet, known as a GSP, which is lined with plastic . . . [and which] in turn must conform to the requirements of the SKF Group packaging standard." CIB 46. By contrast, SKF USA argues that because Respondents do not buy SKF bearings directly from the factory, they "obviously cannot dictate the transport packaging to be used." *Id.*

- *Control of the transportation from the factory to the first U.S. warehouse.* SKF USA contends that all SKF bearings shipped to SKF USA must be transported on ocean carriers

that "(i) meet technical requirements (as to delivery, transit time, and product handling or protection), and (ii) have quality management systems." CIB 47. Ocean carriers selected by SKF USA are "responsible for door-to-door transit from the SKF factory through arrival at the Crossville central warehouse." *Id.* By contrast, SKF USA contends that Respondents "have no control over the transportation of the goods, except perhaps at the last link in the chain immediately prior to arrival at their warehouses." CIB 48.

- *Consistency of source of supply, distribution chain, transport packaging,* and *in-bound transport.* SKF USA contends that because it is able to exercise control over its source of supply, distribution chain, transport packaging, and in-board transport, *i.e.*, "SKF USA can obtain particular products, from a particular SKF factory, at particular times, in particular quantities," and it is "able to ensure consistency as to these procedures." CIB 49. By contrast, SKF USA argues that Respondents procure their bearings in an "*ad hoc*" manner such that "there is no way that there is any assurance as to consistency in the handling or the age of products upon their arrival." *Id.*

- *Written quality control procedures and guidelines.* SKF USA contends that "[o]ne of the key ways by which SKF USA can assure control and consistency is through the creation and use of written procedures and guidelines." CIB 50. SKF USA states that its three-tiered quality manuals are ISO 9001:2000 compliant and that SKF USA has a "routine audit program to ensure that the procedures set forth in the manuals are followed." *Id.* By contrast,

SKF USA asserts that Respondents written quality control procedures and guidelines "differ materially from SKF USA." CIB 51. For example, SKF USA contends that none of Respondents is ISO registered; that except for McGuire, none of Respondents has a quality control manual; that Respondents "do not keep the records and documentation necessary for an appropriate quality control system;" and that "no Respondent has testified to having routine audits." CIB 52-54.

- *Shelf-life standards and monitoring procedures.* SKF USA contends that is has "specific and documented guidelines for the shelf-life of SKF bearings." CIB 55. This is significant, according to SKF USA, because "the age of a bearing does matter with respect to the products' physical and performance characteristics." *Id.* As a result, SKF USA states that its "warehouses regularly inspect inventory to monitor for shelf-life" and that it "scraps bearings that are past their shelf-life." CIB 56-57. By contrast, SKF USA asserts that Respondents "pay absolutely no attention to the shelf-life of the SKF bearings they sell." CIB 58.

- *Traceability — upstream and to first-tier downstream.* SKF USA contends that traceability is important to quality control because "[i]f something goes wrong, the ability to trace permits investigation and correction." CIB 61. Accordingly, SKF USA states that it has in place a "sophisticated system that allows SKF USA to trace product back to the manufacturing lot and all the way through to arrival at the first-tier customer's door." *Id.* By contrast, SKF USA contends that Respondents "are

not capable to 'trace' SKF bearings, as they (unlike SKF USA) have no capability to receive information from SKF AB and the SKF MUs regarding SKF bearings." CIB 62. Moreover, SKF USA alleges that Respondents "have engaged in practices designed to prevent the traceability of the SKF bearings they market." CIB 63.

- *Control and consistency of downstream transit to first-tier.* SKF USA contends that it has "procedures and standards governing the selection of U.S. inland transit carriers; these procedures are designed to ensure a consistently high level of quality during the transportation of the product." CIB 65. By contrast, SKF USA argues that "Respondents do not engage in the selection of carriers or in monitoring efforts to achieve quality control during the ground transportation of product." CIB 66.

- *Downstream quality controls - the contractual obligations of the distributor agreement and distributor policies.* SKF USA contends that contractual obligations imposed on its authorized distributors "ensure that SKF bearings being sold meet SKF USA's high quality standards, and have not come from unreliable sources." CIB 67. For example, SKF USA states that its distributor agreements prevent the sale of SKF bearings which are "damaged, contained in damaged packaging, or which do not otherwise meet SKF quality standards." CIB 68. By contrast, SKF USA argues that "Respondents have no contractual relationship with their customers who are distributors . . . [and thus] have no mechanism to compel their customers who are distributors of bearings to protect the SKF trademark." CIB 68-69.

Appendix C

- *Downstream quality controls — visits by SKF USA to distributor locations.* SKF USA contends that its representatives make periodic visits to authorized distributor locations at which time SKF bearings are checked "to verify that they are not out of date, damaged or in damaged packaging, or are otherwise not suitable for sale." CIB 70. By contrast, SKF USA argues that there is "no evidence on the record that Respondents provide house-calls for quality control assistance and monitoring." CIB 71

- *Downstream quality controls — field scrapping.* SKF USA contends that it maintains a "field scrap policy" where "in the event an SKF USA representative found a non-conforming bearing in the inventory of an authorized distributor, SKF USA has given its sales personnel the ability to, on the spot issue a credit to the distributor for the value of the bearing (up to $[ ]), and thereafter proceed to scrap the bearing." CIB 72. By contrast, SKF USA asserts that Respondents do not have a comparable field scrap policy. *Id.*

- *Downstream quality controls — replacement boxes.* SKF USA contends that it provides replacement SKF boxes to its authorized distributors. CIB 73. For example, SKF USA states that "upon receiving a request from SKF USA's customer service department for a replacement box, the Crossville warehouse will verify the information and create a proper replacement box of the right size for the bearing." CIB 74. By contrast, SKF USA asserts that "Respondents have no such policy of providing original SKF boxes to customers who are distributors . . . as they have no access to original SKF boxes for bearings." *Id.*

Appendix C

- *Downstream quality controls — annual return policy.* SKF USA contends that it maintains an "annual return policy which its authorized distributors can use to return to SKF USA bearings that are approaching the end of their shelf-life." CIB 75. By contrast, SKF USA asserts that Respondents' customers who are distributors of SKF bearings do not benefit from this policy, nor are there analogous programs on offer by Respondents. CIB 77.

- *Downstream — quality controls — training and support for the distributor.* SKF USA contends that it "provides extensive training to the personnel of its authorized distributors, as a quality control measure." CIB 77. For example, SKF USA states that it has "invested in developing resources in the area of education and training of the authorized distributors and customers." *Id.* By contrast, SKF USA argues that Respondents "provide no training to their customers who are distributors of SKF bearings." CIB 78.

- *Downstream quality controls - the distributor's own qualitystems.* SKF USA contends that it has "criteria with respect to the approval of an authorized distributor . . . [and] will consider the market area, company reputation, ability for customer support, financial stability, employee training and experience, and other factors before approving a company as an authorized distributor." CIB 78. By contrast, SKF USA argues that "Respondents will sell the SKF bearings in their inventory to any customer willing to make a purchase." *Id.*

In sum, SKF USA contends that its quality controls incorporate the above-mentioned features while, with few exceptions, Respondents' do not. CIB 41. SKF USA argues that this constitutes a "material difference" between SKF bearings sold by SKF USA authorized distributors and those marketed by Respondents. Id.

Respondents' Position

According to Respondents, the quality control policies concerning "sources of supply, quality systems in place, and product shelf-life standards," relied upon by SKF USA, cannot be the basis for a finding of material differences because: (1) SKF USA cannot prove that such policies are in place throughout the distribution chain; (2) SKF USA itself sold significant volumes of SKF bearings outside of its quality control system; and (3) Respondents have implemented equivalent, or better, quality control systems. RIB 57.[9]

Specifically, Respondents contend that material differences with regard to source of supply cannot be established because: (1) SKF USA authorized distributors purchase SKF bearings from alternative sources, including from Respondents, from the surplus market, and from foreign sources; (2) SKF USA has done nothing to ensure that their authorized distributors use SKF USA as their sole source of SKF bearings; and (3) Respondents take great precautions

9. Respondents address SKF USA's arguments concerning packaging standards and applications engineering services elsewhere in their post-hearing brief. RIB 57.

to ensure the quality of the sources of supply they use to obtain SKF bearings. *Id.*

As for quality systems, Respondents contend that they cannot constitute a material difference because: (1) SKF USA quality requirements are not followed by SKF USA authorized distributors; (2) SKF USA has itself sold significant volumes of bearings outside of the alleged quality control system; and (3) Respondents have implemented equivalent, or better, quality control systems relative to SKF USA. RIB 63.

With regard to product shelf-life standards, Respondents contend that they cannot constitute a material difference because: (1) SKF USA shelf-life policies have not been followed by SKF USA authorized distributors; and (2) SKF USA does not ensure that its shelf-life policies are followed by unauthorized distributors to which it sells. RIB 80, 84.

Commission Investigative Staff's Position

According to Staff, the evidence of record "does not establish trademark infringement based on material differences in post-manufacturing quality control." SIB 30. Staff argues: (1) that SKF USA has not always followed its own guidelines, and thus SKF USA cannot hold Respondents to a higher standard than it holds itself; and (2) that the evidence of record does not prove that the quality controls asserted by SKF USA, *i.e.*, sources of supply, quality control systems, shelf-life standards, warehousing controls, and down-stream quality controls, are different from those used by Respondents, or that any alleged differences are material to consumers. *Id.*

With regard to its first contention, while Staff accepts that SKF USA has extensive quality control procedures, Staff asserts that SKF USA authorizes sales of SKF bearings that are not subject to such procedures. SIB 31. For example, Staff argues: (1) that SKF USA sells SKF bearings "into the aftermarket, including to unauthorized distributors, through its Chicago Rawhide division;" (2) that SKF USA licensed its trademarks to Tysons/RBC without requiring RB C to meet any quality control standards or to sell its SKF bearings only to certain customers; (3) that SKF USA on some occasions sold SKF bearings directly to unauthorized distributors, including some of Respondents; (4) SKF USA sells SKF bearings for resale in pillow blocks and through catalogs; and (5) SKF USA sells SKF bearings to authorized distributors who are not contractually obligated to follow SKF USA's quality control procedures. SIB 31-32.

Discussion, Analysis, and Conclusion

The lack of "quality control" may constitute a "material difference," and so create a likelihood of confusion among consumers in the gray market context. *See Davidoff & CIE, S.A. v. PLD Intern. Corp.*, 263 F.3d 1297, 1300 n.4 (11th Cir. 2001); *see also Gamut Trading, supra*, 200 F.3d at 779. It must be noted however that "'quality control' is not a talisman the mere utterance of which entitles the trademark owner to judgment." *Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 304 (3d Cir. 1998) ("*Iberia*"). Put plainly, there must be a *difference* between the authorized product and the non-conforming product that is *material*. The Federal Circuit defines "material difference" as "no more than a *showing* that consumers would be likely to consider the differences

. . . to be significant when purchasing the product, for such differences would suffice to erode the goodwill of the domestic source." *Gamut Trading*, *supra*, 200 F.3d at 779 (emphasis added). The Second Circuit, specifically addressing material differences based on quality control, requires the owner of the trademark to prove that: "(i) it has established legitimate, substantial, and nonpretextual quality control procedures, (ii) it abides by these procedures, and (iii) the non-conforming sales will diminish the value of the mark." *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 6 (2d Cir. 1996) ("*Warner-Lambert*"). Thus a "company that avails itself of wholly effective procedures will generally be entitled to relief against any measurable sales of non-conforming goods." *Warner-Lambert*, *supra*, 86 F.3d at 7; *accord Polymer Technology Corp. v. Mimran*, 37 F.3d 74, 78 (2d Cir. 1994) ("Goods, however, that do not meet the trademark owner's quality control standards will not be considered genuine goods, and their sale will constitute trademark infringement."). It bears noting that while *Warner-Lambert* establishes a three-pronged test for material difference based on quality control, the principal criteria of *difference* and *materiality* are consonant with the broader holding of *Gamut Trading*, which is the controlling precedent here.

Taking the second criterion (materiality) first, the Federal Circuit in *Gamut Trading* required a "showing" that a hypothetical consumer would be likely to consider an asserted difference significant in order for it to be material. Staff, for one, pointedly argues that the evidence of record does not show that the quality controls asserted by SKF USA, *i.e.*, sources of supply, quality control systems, shelf-life

standards, warehousing controls, and down-stream quality controls, are significant to consumers. SIB 32-35. Such a showing is required by *Gamut Trading*, and yet in its post-hearing brief SKF USA provides scant evidence of this in the record. Instead, SKF USA relies on attorney argument and analogies to cases decided based on different products and different facts while making little attempt to demonstrate factually why SKF USA quality controls are significant to consumers. *See Gamut Trading*, *supra*, 200 F.3d at 782 (holding that "*[s]ubstantial, evidence* supports the Commission's finding that consumers would consider the differences between the used imported tractors and the authorized Kubota-US tractors to be important to their purchasing decision, and thus material" (emphasis added)). This burden would not require SKF USA to prove that SKF USA authorized bearings are superior to their gray market counterparts because of quality controls, *see Iberia*, *supra*, 150 F.3d at 304, nor would it require SKF USA to produce consumer survey data or to necessarily satisfy a preponderance of the evidence standard, but it does require more than self-serving assertions. SKF USA. appreciates this with respect to technical and engineering support because it goes to great lengths to present evidence of materiality in that section. *See* I.B.4., *infra*.

In only two instances is there evidence of record possibly demonstrating that SKF's USA quality control measures are significant to consumers. With regard to the fact that SKF USA's quality control measures are ISO compliant, there is testimony that SKF USA customers have "expressed an interest in SKF USA's ISO registration status." Stevens, Tr. 575:23-576:1, 577:15-578:5; **FF 25**. Also, there is

testimony regarding "customer complaints that have been due to shelf-life." Snyder, Tr. 241:2-243:4; **FF 26**. Apart from this, there is no evidence of record, either circumstantial or otherwise, that SKF USA's enumerated quality controls are significant to consumers.

Nevertheless, even if SKF USA showed that its quality controls are significant and therefore material to consumers, SKF USA's claim still fails: (1) under *Gamut Trading* because no differences exist at the point of sale between authorized and non-conforming SKF bearings as a result of quality control; and (2) under *Warner-Lambert* because while SKF USA's quality controls are "legitimate, substantial, and nonpretextual," (a) SKF USA and its authorized distributors "predictably" do not abide by SKF USA quality controls and (b) there is no proof of record that Respondents' alleged non-conforming sales diminish the value of the SKF trademarks beyond the diminution resulting from SKF USA's non-conforming sales. *See Warner-Lambert*, *supra*, 86 F.3d at 7 ("A company with less effective quality control standards that predictably result in some sales of non-conforming goods will have a mark that reflects a value based on the presence in the market place of those goods."). The second finding, under *Warner-Lambert*, is essentially a restatement of the first finding, under *Gamut Trading*, and both rely on the same factual predicate discussed herein.

The evidence of record shows, and there is little disagreement, that SKF USA has formulated extensive quality control procedures. *See* Stevens, Tr. 563:13-564:13; CX-640C; 640.41C; ~~CX-2299C~~; CX 2299.1C; **FF 27**. For example, SKF USA employs a three-tiered quality control

system consisting of layered manuals: (1) Qb (group quality management system procedures), (2) Qc (division quality manuals), and (3) Qd (unit quality manuals). *See* CX-2299C; **FF 28**. SKF USA's quality controls are also ISO 9001:2001 compliant. *See* Stevens, Tr. at 570:18-24; **FF 29**.

However, SKF USA's quality controls are undermined because of sales of non-conforming SKF bearings by SKF USA and SKF USA authorized distributors. This occurs in two ways: (1) end users purchase SKF bearings from SKF USA and SKF USA authorized distributors who in turn purchase SKF bearings from gray market sources, which according to SKF USA do not follow SKF USA quality controls; and (2) end users purchase SKF bearings from unauthorized distributors, who according to SKF USA do not follow SKF USA quality controls, that were in turn purchased from SKF USA and SKF USA authorized distributors. In both cases, end users purchase SKF bearings that were not subject to SKF USA quality controls throughout the distribution chain. On the whole, SKF USA does not contest these facts but instead contends that the standard for comparison should be SKF USA versus unauthorized distributors rather than SKF USA authorized distributors versus unauthorized distributors. For reasons discussed in Section I.B.1, *supra*, SKF USA's argument must fail because the focus of infringement analysis based on material differences is at the point of sale to the end user. *See Gamut Trading*, *supra*, 200 F.3d at 779.

Appendix C

Sources of Supply of SKF Bearings

With respect to sources of supply, the evidence of record demonstrates that: (1) SKF USA and SKF USA authorized distributors purchased SKF bearings from sources including Respondents, the surplus market, and foreign sources; and (2) SKF USA has not dealt with gray market participants in a predictable way. SKF USA authorized distributors have used Respondents as a source of supply for SKF bearings. *See* Clark, Tr. 1177:23-1178:3; McGuire, Tr. 5291:4-13; RX-2061C; Bishop, Tr. 4224:19 - 4225:12; **FF 30.** Specifically, [

]. *See* RX-2382C; **FF 34.**

SKF USA authorized distributors purchased bearings from the surplus market. Specifically, AIT, Motion, Kaman, and U.S. Bearings all purchased surplus SKF bearings from Baker Bearing. *See* Baker, Tr. 4306:15-23; **FF 35.** Benjamin Baker, President of Baker Bearing, testified that AIT, Motion, and Kaman, all SKF USA authorized distributors, are three of his largest customers. *See* Baker, Tr. 4306:15-23; **FF 36.** [

]. *See* Morrison, Tr. 4191:6 22; **FF 37.**

Authorized SKF USA distributors obtained SKF bearings directly from European sources. [
S[

] **FF 38.**

Appendix C

SKF USA itself purchased SKF bearings from gray market sources. In 2002, SKF USA purchased SKF bearings from BDI, a settling Respondent and unauthorized distributor. *See* DeBorde, Tr. 3861:1-17; 3863:6-8; RX-7006C at BDI 01364-01365; **FF 39**.

Procurement from the gray market occurs despite the fact that SKF USA authorized distributors are contractually obligated to purchase all requirements of SKF branded or trademarked products exclusively from SKF USA under the industrial distributor agreement. *See* Moore, Tr. 776:25-777:9; CX-1064; **FF 40**. Indeed, SKF USA terminated authorized distributor agreements with Respondents McGuire and Bohls upon learning that both purchased SKF bearings from gray market sources. *See* Clark, Tr. 1171:11-1172:14; **FF 41**. By contrast, SKF USA did little to enforce the distributor agreement upon learning that AIT, Motion, and Kaman, the three largest SKF USA authorized distributors, purchased SKF product from the gray market — beyond sending standard letters to approximately 100 distributors in August 2002 reminding them of SKF USA's gray market policy. *See* Clark, Tr. 1571:16-1573:18,1177:21-1178:24, 1180:15-24, 1181:3-12; CX 2382; **FF 42**. SKF USA also did little to enforce the distributor agreement upon learning that Precision Industries, a SKF USA authorized distributor, purchased SKF bearings from the gray market in 1996. *See* Clark, Tr. 1582:20-1583:23; **FF 43**. At that time, SKF USA warned Precision Industries that it was in violation of the distributor agreement but did not terminate the distributor agreement. *See* Clark, Tr. 1582:20-1583:23; **FF 44**. More importantly, Dennis Circo, CEO of Precision Industries, testified that SKF USA never instructed Precision to stop

selling SKF bearings remaining in inventory after the 1996 gray market importation. *See* Circo, Tr. 2304:14 - 2308:7; **FF 45**. With SKF USA's knowledge, Precision Industries continued to sell these unauthorized bearings for "a year or two" after 1996. *See* Circo, Tr. 2304:20-22; **FF 46**.

Sales of SKF Bearings to Unauthorized Distributors

SKF USA also undermines its quality controls by selling SKF bearings: (1) to unauthorized distributors through its Chicago Rawhide ("CR") division; (2) to unauthorized distributors through SKF USA authorized distributors; and (3) to unauthorized distributors directly, including Respondents.

SKF USA markets SKF bearings outside of its quality control procedures through its CR division. In 2001, CR sold $[ ] million worth of SKF bearings into the aftermarket. *See* Diggory, Tr. 4751:5-8; **FF 47**. SKF USA distinguishes CR by arguing that the majority of its sales are directed to the vehicle service market rather than the industrial aftermarket. RRB 68. However, as already discussed in section I.B.1, *supra*, that is not a substantive difference because SKF USA has offered no reason to conclude that consumers would be less likely confused by a material difference if it arose between a SKF bearing sold by CR and a SKF bearing sold by an authorized distributor than if it arose between a SKF bearing sold by Respondents and a SKF bearing sold by an authorized distributor. Admittedly, the evidence of record demonstrates that CR made modest sales to unauthorized distributors, including some Respondents. *See* McGuire, Tr. 5256:21-5257:16, 5265:6-5267:14, 5272:9-

5275:15; RPX-2007; RPX-2011; RPX-2014; RX-2276C; RX-2324; DeBorde, Tr. 3887:1-5; **FF 48.** What is far more significant, however, is that CR. maintains a large catalogue of SKF bearings and has no policy against selling SKF bearings to unauthorized distributors. *See* Diggory, Tr. 5726:21-5727:5; RX-2286C; **FF 49.** At trial, William Diggory of CR. testified:

> Q: Of the 3,000 accounts you have, approximately, how many of those accounts are also authorized SKF distributors?
>
> A: Oh, that SKF authorizes? I'm sorry, I wouldn't have any idea.
>
> Q: Is it relevant to you in determining who you sell to whether or not they are an authorized SKF distributor?
>
> A: No, we work completely independently of each other.

Diggory, Tr. 5726:21-5727:5; **FF 50.** Accordingly, this constitutes a channel for SKF bearings that is not governed by SKF USA quality controls throughout the distribution chain from SKF MU to end user.

SKF USA sells SKF bearings outside of its quality controls through its SKF USA authorized distributors. Most notably, the distributor agreement does not require SKF USA

authorized distributors to follow any quality controls.[10] *See* CX-1064; **FF 51**. Even if it did, the evidence of record demonstrates that a significant number of SKF USA authorized distributors do not follow SKF USA quality controls. At trial, current and former employees of SKF USA authorized distributors, including Kaman, EIS, Motions, and Precision, testified that they were either unaware of or indifferent to SKF USA quality controls on packaging and shelf-life. *See, e.g.*, Davis, Tr. 2136:16-2138:13 (packaging), 2197:4-16 (shelf-life); Callahan, Tr. 4774:7-4775:2, 4787:13-4790:14, 4791:19-4792:19 (packaging and shelf-life); Headrick, Tr. 4245:2-15, 4247:8-23 (packaging); Pearce, Tr. 2233:2-5,20-24 (shelf-life); [ ] (shelf-life); **FF 52**. Gary Dowley, Respondents' quality control expert, concluded based on inspections of 15 facilities[11] that SKF USA quality control "requirements have not been communicated by SKF to the authorized distributors or the authorized distributors either do not understand or have not embraced these requirements within their operations." *See* Dowley, Tr. 5435:8-5436:1; RDX-0013; **FF 54.** Second, SKF USA does not have a policy against SKF USA authorized distributors selling SKF bearings to unauthorized distributors. At trial, Dennis Clark testified:

---

10. In its post-hearing brief, SKF USA asserts that SKF USA authorized distributors are required to report instances of gray market purchases and sales but fails to divulge where this requirement is found in the distributor agreement. CIB 68.

11. The sample consisted of [ ] *See* Dowley, Tr. 5433:2-12; RDX-0012C; **FF 53**.

Appendix C

Q: Does SKF discourage its authorized distributors from selling bearings to non-authorized distributors?

A: There is no policy. We do discourage them from doing so.

Q: When you say you discourage them, what steps do you take to discourage them from selling to non-authorized distributors?

A: It's simply talking to them about how selling SKF product to unauthorized distributors weakens the position they have in the marketplace.

Q: How is this conveyed to the authorized distributors as; is it done through policy bulletins?

A: *No, as I said, it was not a policy, it was just, it's something we do in conversation with them.*

Clark, Tr. 1743:11-25 (emphasis added); **FF 55**. In sum, while SKF USA through its distributor agreement may prevent, however unevenly, SKF USA authorized distributors from purchasing SKF bearings from unauthorized sources, there is no "policy" — let alone a specific contractual prohibition-preventing SKF USA authorized distributors from selling SKF bearings to unauthorized distributors.[12]

12. In its post-hearing brief, SKF USA asserts that the SKF Trademark Policy, or Schedule C of the distributor agreement, "prohibits the sale of SKF bearings which do not meet SKF quality

(Cont'd)

Appendix C

SKF USA markets SKF bearings outside of its quality control procedures by selling directly to unauthorized distributors. From 1999 to 2002, SKF USA sold SKF bearings directly to [

] **FF 56**. Until December 1998, Ritbearing, a settling Respondent and unauthorized distributor, purchased bearings directly from SKF USA. *See* Lambo, Tr. 4069:8; Clark, Tr. 1285:1-18; 1588:19-25; 1591:8-1592:19; RX-2142C; RX-2142C; **FF 57**. In its dealings with RitBearing, a settling Respondent and unauthorized distributor, SKF USA never specified what, if any, packaging guidelines RitBearing should follow. *See* Lambo, Tr. 4069:16-21; **FF 58.** Also, SKF USA did not place any requirements on RitBearing as to how it would handle, store, and ship the SKF bearings SKF USA sold to RitBearing. *See* Jones, Tr. 5664:12-15; **FF 59**. In 1998, SKF USA sold SKF bearings to [ ] *See* Clark, Tr. 1176:19-21, 1226:4-6, 1227:1-14, 1.312:10-1313:12; RX-0493; **FF 60.**

In conclusion, these findings clearly demonstrate that SKF USA is reluctant to curtail its channels of trade, even gray market channels. This has led to haphazard application

---

(Cont'd)

standards." CIB 68. This, however, does not constitute a prohibition against sales of SKF bearings from SKF USA authorized distributors to unauthorized distributors because, presumably, SKF bearings sold by SKF USA authorized distributors meet SKF "quality standards" irrespective of the buyer. Moreover, it is far more likely that SKF USA would have made a prohibition against sales to unauthorized distributors an explicit provision of the distributor agreement if SKF USA had truly meant it.

of its quality controls: in some cases, SKF USA authorized distributors have been terminated for violations, *i.e.*, McGuire and Bohls, while in other cases the largest SKF USA authorized distributors have only received "reminders," and in those rare cases the offending parties were not even singled out for admonishment. Based on the evidence of record it is clear that consistent and predictable application of SKF USA quality controls has taken a back seat to the distribution of SKF bearings by any means. SKF USA knowingly channels SKF bearings to end users via authorized distributors *and* unauthorized distributors. In this way, SKF USA knowingly by-passes its quality controls in order to maximize sales of SKF bearings. As a result, there is no difference due to post-manufacturing quality control between SKF bearings sold through SKF USA authorized distributors and unauthorized distributors because in both cases SKF bearings are not subject to SKF USA quality controls throughout the distribution chain. Moreover, SKF USA provided no evidence that Respondents' sales of SKF bearings reduces the value of the SKF trademarks beyond the diminution resulting from SKF USA's non-conforming sales. In the absence of material differences based on quality controls, there is no likelihood of confusion for that stated reason between SKF bearings sold by SKF USA authorized and unauthorized distributors. Accordingly, SKF failed to establish any trademark violation based on quality control differences.

Appendix C

Issue I.B.4: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in technical and engineering support?

Complainant's Position

According to SKF USA, authorized SKF bearings are materially different from Respondents' unauthorized SKF bearings because of what SKF USA contends are the following "technical and engineering support" differences:

- SKF USA contends that because it is an engineering company, having designed and manufactured bearings since 1912, and Respondents are not, a material difference exists between authorized and unauthorized SKF bearings. CIB 83. According to SKF USA, this is demonstrated in three ways. First, as both a manufacturer and distributor of bearings, SKF USA learns about the needs of its customers and is in a position to modify its products accordingly, *i.e.*, when deciding what bearings to produce or import and what types of services it will provide to its customers. CIB 84. Second, SKF USA possesses institutional knowledge comprising the design, selection, and use of bearings. CIB 85. SKF USA employs a staff of engineers and operates a research facility in Plymouth, Michigan. *Id.* SKF USA also maintains two proprietary databases and a three-dimensional modeling program for designing bearings. CIB 86-87. Third, SKF

Appendix C

USA has made modifications to its products and services based on interactions with customers, *e.g.* development of its JEM guideline with C3 internal clearance and polyurea based grease, and its use of metallic cages in certain critical applications. CIB 88-89. By contrast, SKF USA contends that Respondents do not have a manufacturing capacity; do not invest in research and technical staff; and do not have access to SKF USA's proprietary computer systems.

- SKF USA contends that the technical and engineering support it provides to buyers of authorized SKF bearings constitutes a material difference. First, technical and engineering support encompasses pre-sale activities by "applications engineers" and "field sales representatives." According to SKF USA, applications engineers "participate in the design of the product, follow it through production, and monitor its performance to identify failures or maintenance issues." CIB 92. These engineers also assist both OEM and aftermarket customers in choosing particular products and "in understanding the attributes of the bearing, its capabilities, and how its attributes and capabilities influence the performance of the machine into which the bearing is placed." *Id.* Field sales representatives assist the customer in "selecting the proper bearing for the application, informing the customer about the bearing's function, and advising the customer on how to achieve the longest possible operating life from the bearing." CIB 95. Second, technical and engineering support also encompasses post-sale activities through "industry specialists," the SKF USA engineering hotline (800 number), and SKF USA's customer service

department. Industry specialists "provide on-going technical and engineering assistance to the customers who purchase SKF bearings from SKF USA's authorized distributors." CIB 94. The SKF hotline is a toll-free number available to SKF USA customers for "state-of-the art, up-to-date technical information regarding SKF bearings, and how the bearings can be used in industrial equipment and machinery." CIB 96. The SKF USA customer service department maintains its own toll-free number and fields calls from SKF authorized distributors. CIB 100. The customer service department takes orders, handles returns, warranty claims, and complaints and is staffed with customer service representatives who are given "extensive technical training." *Id.* Third, SKF USA provides training for its authorized distributors and for customers of authorized distributors. CIB 102-105. Specifically, SKF USA authorized distributors may participate in SKF USA's "Bearing Pro" training course and, upon completion of that course, in two additional training programs. CIB 103. SKF USA also provides informal training opportunities to authorized distributors on a continuing basis, including training sessions conducted by SKF USA field sales representatives at authorized distributor locations. *Id.* Also, customers of authorized distributors receive training and support from SKF USA field sales representatives and industry specialists on topics including bearing maintenance, installation, and new products. CIB 104. SKF USA also affords customers of SKF USA authorized distributors the opportunity to submit for analysis "bearings that have either failed prematurely, or failed to perform as expected." CIB 105. The laboratory "failure analysis"

generates a written report including fmdings and recommendations to address any problems. *Id.*

In sum, SKF USA argues that the aforementioned technical and engineering support services are significant to bearings customers. Therefore, according to SKF USA, they are "material" to consumers. Moreover, because Respondents do not provide comparable services to their customers, and because consumers of unauthorized SKF bearings may not take advantage of SKF USA's technical and engineering support services, SKF USA asserts that a material difference exists between authorized and unauthorized SKF bearings.

Respondent's Position

According to Respondents, SKF USA's technical and engineering support services are not material to consumers. Even if they are, Respondents contend that consumers of unauthorized SKF bearings may receive the benefit of such services from SKF USA and Respondents regardless of whether they purchased unauthorized SKF bearings. Furthermore, Respondents contend that SKF USA authorized distributors do not consistently provide technical and engineering support services.

With regard to application-specific pre-sales assistance, Respondents contend that SKF USA "does not require, monitor, or otherwise attempt to ensure that consumers who purchase SKF bearings from its authorized distributors are always assisted in selecting the proper bearing for the intended application." RIB 88. Respondents contend that SKF USA and SKF USA authorized distributors routinely

sell SKF bearings without application-specific advice and that such advice is "rarely, if ever, rendered." RIB 89. Moreover, Respondents contend that SKF USA authorized distributors are not required to and rarely participate in SKF USA training programs such as Bearing Pro. RIB 90. Respondents also argue that even if differences exist regarding pre-sale services, they are not "material" because "the overwhelming majority of Respondents' customers are bearing distributors . . . or end-users purchasing replacement parts . . . [and are] sophisticated purchasers who 'know what they want' and rarely, if ever, solicit application-specific assistance." RIB 91.

With regard to SKF USA's assertion that it offers to train SKF USA authorized distributors and their customers, Respondents contend that "there is much less there than meets the eye." RIB 93. Respondents argue that while SKF USA in-house staff may receive considerable training, SKF USA authorized distributors do not take advantage of SKF USA's optional training programs in significant numbers. *Id.* Further, Respondents contend that most of SKF USA's training programs are directed to end-users not SKF USA-authorized distributors. RIB 94. Respondents point out that the proper basis for comparison is between SKF USA authorized distributors and Respondents; and because SKF USA authorized distributors do not avail themselves of SKF USA's training programs in significant numbers, there is no difference between the services offered by SKF USA authorized distributors and Respondents. *Id.* Respondents also submit that whatever information is imparted to SKF USA authorized distributors through SKF USA training programs is available to the public through published

materials, the SKF website, or Respondents. RIB 95. In any case, Respondents assert that any difference "in levels of training and experience" between SKF USA authorized distributors and Respondents is not material because "[m]ost aftermarket consumers simply do not need extensive advice on what bearing is 'right' for their application." RIB 96.

With regard to SKF USA's engineering hotline, Respondents argue that SKF USA authorized distributors are either unaware of the hotline or rarely use it, or refer their customers to it. RIB 101. To the extent it is useful, Respondents contend that the hotline is effectively available to all owners of SKF bearings whether authorized or not. RIB 102. Respondents state that only recently did SKF USA take steps to prevent consumers of unauthorized bearings from using the service and that such steps are generally ineffective. *Id.*

With regard to SKF USA's "failure analysis" service, Respondents contend that SKF USA charges a $[ ] fee on all but large end users and OEMs to conduct the analysis. RIB 105. Also, SKF USA will provide the same service to all purchasers of SKF bearings, including SKF bearings purchased from unauthorized distributors. RIB 106. Respondents argue that because the failure analysis service is not included in the purchase price of SKF authorized bearings and it is available to all purchasers of SKF bearings for a fee, it is an ancillary service and therefore may not constitute a material difference between authorized and unauthorized SKF bearings. *Id.*

Appendix C

Commission Investigative Staff's Position

Staff is of the opinion that SKF USA's technical and engineering support services constitute a material difference. Staff argues that support services have been found to be material in the case law on gray market infringement. SIB 35. Moreover, Staff recites the litany of technical and engineering support services offered by SKF USA, particularly post-sale activities, and contends that SKF USA customers consider such services "useful and helpful." SIB 36. Staff also argues that comparable services offered by Respondents either do not exist or are inferior to those provided by SKF USA. SIB 36-37. Staff disputes Respondents' argument that since few customers avail themselves of SKF USA's technical and engineering support services that there is, *de facto*, no difference between authorized and unauthorized SKF bearings and concludes that Respondents are "free-riding" off of SKF USA's goodwill. SIB 37.

Discussion, Analysis, and Conclusion

Differences in "service commitments" may constitute a "material difference," and so create a likelihood of confusion among consumers in the gray market context. *See Nestle*, *supra*, 982 F.2d at 639 n.7 (*citing Original Appalachian*, *supra* 816 F.2d at 73; *Osawa*, *supra*, 589 F. Supp. at 1168-69). In *Gamut Trading*, while not explicitly addressing service commitments, the Federal Circuit upheld the Commission's finding of material difference because "the used Japanese tractors lacked English warning labels and instructions, and that the Kubota-US dealers did not have

English-language operator or service manuals for the Japanese models." *Gamut Trading*, *supra*, 200 F.3d at 780. Moreover, the proposition that service commitments, or in this case technical and engineering support services, may be material is entirely consonant with the reasoning behind *Gamut Trading* that "the consuming public, associating a trademark with goods having certain characteristics, would be likely to be confused or deceived by goods bearing the same mark but having materially different characteristics; this confusion or deception would also erode the goodwill achieved by the United States trademark holder's business." *Gamut Trading*, *supra*, 200 F.3d at 779. However, because a difference may be material does not make it so. The complainant carries the burden of proving that a *difference* exists between the authorized product and the infringing product that is *material.* Again, the Federal Circuit defines "material difference" as "no more than a showing that consumers would be likely to consider the differences . . . to be significant when purchasing the product, for such differences would suffice to erode the goodwill of the domestic source." *Gamut Trading*, *supra*, 200 F.3d at 779.

SKF USA's Technical and Engineering Support Services are Material

In contrast to SKF USA's failure to show why SKF USA quality controls are material to consumers, SKF USA provides extensive evidence as to why its technical and engineering support services are important to bearings consumers. Contrary to Respondents' assertion that bearings consumers are indifferent to technical and engineering support, SKF USA adduced at trial both expert and fact

testimony to support its claim that bearings consumers consider those services significant.

Expert testimony of Heinz Bloch established that to determine the appropriate bearing for a particular application involves factors including cage materials, lubricants, bearing geometries, and internal clearances. *See* Bloch, Tr. 2544:1-18; **FF61**. Also, environmental factors must be accounted for, *e.g.*, the speed and temperature of the environment in which the bearing is used, the load it must carry, and the installation technique utilized, because the life-expectancy of a bearing is application-specific. *See* Bloch, Tr. 2543:13-25; **FF 62**. Failure to select the appropriate bearing, under certain conditions, may lead to catastrophic failure of the machine containing the bearing. *See* Bloch, Tr. 2578:22-2579:13; **FF 63**. Accordingly, Bloch concluded that technical and engineering support are important in certain SKF bearings applications. *See* Bloch, Tr. 2648:11-2649:6; **FF 64**. Moreover, Bloch concluded that technical and engineering support are significant beyond application-specific pre-sale support and include post-sale support like "failure analysis" that is meant to prevent repeated mistakes. *See* Bloch, Tr. 2548:3-2549:2; **FF 65**.

Fact testimony from SKF USA customers also substantiates SKF USA's assertion that its technical and engineering support services are material. [

]

[

] Michael McConville of Truss Joist, a OEM that manufactures saw mill equipment, testified that Truss Joist requested technical

assistance through Kaman, its SKF USA authorized distributor. *See* McConville, Tr. 979:24-980:3; **FF 69**. McConville also testified that an SKF field representative visited Truss Joist and met with company engineers because his engineers "cannot be experts on all the applications and stuff that they do, so the rely heavily on manufacturers and their input." *See* McConville, Tr. 1011:13-15; **FF 70**.

In addition, Respondents' witnesses testified to the importance of post-sale technical and engineering support. Brad Kellogg of Electric Motor Service Company testified that his company had returned bearings for failure analysis to McGuire on various occasions. *See* Kellog Tr. at 1713:8-13; **FF 71**. He found the information generated by the analysis helpful, and testified that having that type of support is important to him. *See* Kellog, Tr. 1714:6-13; **FF 72**. Tony Gaetz of Evanite Fiber Corporation testified that both installation and condition monitoring are important functions. *See* Gaetz, Tr. 1953:9-18; **FF 73**. Michael McGuire agreed with the statement that "the reason you provide [technical support] is because you are aware as an engineer that frequently bearing failure can be attributed to improper application, use, lubrication and so therefore you think that that type of technical support is important to the purchasers of bearings." *See* McGuire, Tr. 5409:3-12; **FF 74.**

Though Respondents contend that their knowledgeable bearings customers are aware of and unconcerned with the differences in technical and engineering support separating Respondents and SKF USA, thus making those services immaterial, the evidence of record demonstrates that some unauthorized SKF bearings customers are not aware of the

differences. Charles Worden testified that the SKF engineering hotline receives roughly [ ] calls a day, [ ]% of which are from end users. *See* Worden, Tr. 449:22-450:20; **FF 75**. Worden testified that some of those calls are from "potential customers, customers that have been purchasing from our competitors or have been instructed to call us by one of our competitors." *See* Worden, Tr. 454:5-16; **FF 76**. Although Worden stated that these calls are "not very common" and "very infrequent," they still exist. *See* Worden, Tr. 454:18; **FF 77**.

This finding dovetails with Respondents' argument elsewhere that "SKF USA's engineering hotline was effectively available to all owners of SKF bearings (from whatever source)." RIB 102. Respondents made this argument to illustrate that there is no difference between the technical and engineering services provided by SKF USA and Respondents. RIB 102. However, there is a real difference - access to the SKF hotline by purchasers of authorized SKF bearings is assured whereas access to the SKF hotline by purchasers of unauthorized SKF bearings is not. A significant number of unauthorized customers are unaware of the fact that the SKF hotline is inaccessible to them because the names of their unauthorized distributors appear on SKF USA's recently instituted "black list," which is designed to thwart unauthorized use of the hotline. Thus, their reliance upon SKF USA's technical and engineering support, which they consider to be important, will be frustrated.

In sum, SKF USA has made an adequate showing, as required under *Gamut Trading*, that bearings consumers are likely to, and actually do, consider technical and engineering services to be significant, and thus material.

Appendix C

Actual Differences in Technical and Engineering Support

Having established that technical and engineering support is a "material" concern to bearings consumers, the question remains whether there are actual differences between SKF bearings sold by SKF USA and SKF USA authorized distributors and SKF bearings sold by Respondents. For the purposes of this analysis, technical and engineering services are divided into "pre-sale" and "post-sale" services.

Pre-Sale Services

First, SKF USA contends that its manufacturing capacity, research and technical staff, and proprietary computer systems make authorized SKF bearings materially different from unauthorized SKF bearings. Certainly, these arguably important features of SKF USA distinguish it as a company from Respondents, but it does not prove that authorized SKF bearings are in any way different at the point of sale. What information is gained from SKF USA's long experience in the bearings industry, which is presumably translated into improved SKF bearings, inures to the benefit of all SKF bearings consumers including purchasers of unauthorized SKF bearings. Second, SKF USA contends that application-specific pre-sale services provided to customers of SKF USA authorized distributors differentiates authorized SKF bearings from Respondents'. It has been established that such services are important to bearings consumers because the wrong bearing in a machine may lead to catastrophic failure. However, Respondents argue that application-specific pre-sale services are rarely, if ever, used and that SKF authorized

distributors routinely sell SKF bearings without providing that service. In effect, Respondents argue that, *de facto*, there is no difference between the pre-sale advice offered by SKF USA authorized distributors and by Respondents, which is to say not very much. Alternatively, assuming there is a material difference, Respondents attempt to rebut the concomitant presumption of a likelihood of confusion by arguing that its customers fully understand that they will not receive pre-sale advice when purchasing SKF bearings from gray market sources. In sum, Respondents argue that there is no likelihood of confusion even if, technically, there is a material difference.

The evidence of record includes anecdotal evidence that SKF USA authorized distributors routinely sell SKF bearings to end users without asking about application; although this evidence is by no means dispositive. *See* Bishop, Tr. 4223:13-16, 4232:15-23; Headrick, Tr. 5541:8-9, 5541:10-12; FF 78. Likewise, SKF USA provides evidence that is equivocal at best to support its claim that SKF USA authorized distributors routinely provide application-specific pre-sale services. The evidence of record reflects that SKF USA authorized distributors have access to the SKF USA customer service 800 number (not the same as the SKF engineering "hotline"), which receives from [ ] to [ ] calls a day. *See* Scheib, Tr. 678:18-22; **FF 79**. However, SKF USA concedes that while its customer service representatives respond to a variety of questions regarding bearing price, availability, nomenclature, returns, and SKF USA catalogues, its "central function" is to take orders from SKF authorized distributors. *See* Scheib, Tr. 684:3-12; CIB 100; **FF 80.** Thus, although the SKF USA customer service 800 number may provide SKF

USA authorized distributors with information regarding application-specific services that is solicited at the request of end users, that is not its primary function. More importantly, nowhere is it argued by SKF USA that its authorized distributors are required to provide application-specific pre-sale services. Indeed, it appears that application-specific pre-sale services are only available through SKF USA application engineers and field sales representatives and then only to large customers and OEMs. In sum, though application-specific pre-sale services are important to consumers, and hence are "material," SKF USA has failed to meet its burden of proving that SKF USA authorized distributors provide such services at the point of sale while Respondents do not, and hence are "different."

Post-Sale Services

Conversely, two SKF USA post-sale services distinguish authorized SKF bearings from unauthorized bearings.[13] First, SKF USA contends that its "industry specialists" "provide on-going technical and engineering assistance to the customers who purchase SKF bearings from SKF USA's authorized distributors." CIB 94. The evidence of record shows that SKF USA employs a group of field engineers who specialize in particular industries. *See* Moore, Tr. 769:20-770:16; **FF 82**. These "industry specialists" include engineers who have expertise in the equipment used in pulp

13. SKF USA's "failure analysis" is not considered herein a post-sale service. It is an ancillary service because it is not included in the price of a SKF bearing. Only if the analysis proves that SKF USA is at fault will the consumer be reimbursed the $[ ] fee. *See* Scheib, Tr. 712:10-20; Worden, Tr. 472:15-474:1; **FF 81**.

and paper mills, petrochemical plants, and steel mills. *See* Moore, Tr. 770:4-5; Wilson, Tr. 1985:4-9; Headrick, Tr. 5532:10-5533:9; Senkel, Tr. 5827:11-20; **FF 83.** The record also reflects that industry specialists receive extensive and ongoing training, completing at least one year in an apprenticeship program and at least 80 hours of training every year. *See* Moore, Tr. 770:19-771:7; FF 84. Industry specialists are also trained on any newly introduced products. *See* Moore, Tr. 771:5-7; **FF 85.** The industry specialists provide on-going technical and engineering assistance to purchasers of SKF bearings from SKF USA authorized distributors. *See* Moore, Tr. 770:12-16; **FF 86.** As an example, SKF USA cites efforts by a steel industry specialist to reduce the usage of bearings at a Bethlehem Steel plant. *See* Headrick, Tr. 5532:23-5533:3; **FF 87.** Another example is Jim Senkel, an industry specialist focusing on pulp and paper mills. *See* Senkel, Tr. 5826:19-20; **FF 88.** Senkel testified that he assists end users when they encounter problems with the SKF product line. *See* Senkel, Tr. 5835:10-20; **FF 89.** Specifically, Senkel testified that his job involves troubleshooting, technical support, installation supervision, and end user training. *See* Senkel, Tr. 5829:16-25, 5837:6-14, 5838:24-5839:8; **FF 90.** Since 1980, he has called on a [ ] paper mill two or three times a month. *See* Senkel, Tr. 5835:24-5836:5; **FF 91.** Senkel has also provided assistance to the [ ] in [ ] [ ] *See* [ ]; **FF 92.** [ ]. [ ]; **FF 93.** In contrast with these instances of on-site post-sale technical and engineering support, the evidence of record is devoid of evidence of comparable services by Respondents.

Appendix C

It bears noting that Respondents' witnesses all but conceded the unique importance of SKF USA's post-sale technical and engineering support in their testimony. David Bohls testified that he would advise customers who experienced repeated bearing failures to contact "the manufacturer of the machine and tell them to get with their engineers and their engineers can get with SKF's engineers and figure out what might be wrong with the bearing." *See* Bohls, Tr. 3586:3-7; **FF 94**. Richard Korn a Bohls salesman formerly employed by Capital Bearing, an authorized SKF distributor, testified that, when he worked at Capital, if a customer had a question about the proper lubricant to use he would call the SKF hotline to get assistance with the customer's question but that he no longer did so because he worked for an unauthorized distributor. *See* Korn, Tr. 1467:23-1468:10; 1472:22-1473:12; **FF 95**. Jason Pearce, a salesman formerly employed by Motion, testified that if he needed technical assistance, he could get it from SKF USA. *See* Pearce, Tr. 2205:3, 2286:21-2287:20; **FF 96**. Pearce testified that if customers had questions "that I could not answer, and it was regarding specifically an SKF product, I would refer them to the 800 number that I had." *See* Pearce, Tr. 2289:19-21; **FF 97**. Pearce also used the SKF hotline. *See* Pearce, Tr. 2287:10-20; **FF 98.** Pearce testified that he called because he was trying to identify the current designation of an old part number and was informed that there was none, which he testified was helpful to know. *See* Pearce, Tr. 2288:3-24; **FF 99**.

In the post-hearing briefs, Respondents do not address on-site post-sale support to customers of SKF USA authorized distributors. It appears that Respondents rely on

the global argument that because SKF USA and SKF USA authorized distributors buy from and sell to unauthorized distributors there can be no material difference between authorized and unauthorized SKF bearings. This argument, however, is misplaced because there is a basic difference separating the other alleged bases for material difference and post-sale technical and engineering support. For example, it is certainly true that SKF bearings pass between SKF USA and SKF USA authorized distributors and unauthorized distributors to such an extent that it undermines SKF USA's quality controls because significant numbers of SKF bearings are sold to end users that are not subject to quality controls through the distribution chain.

Now contrast that with this issue. It is not disputed that SKF USA will provide post-sale customer support to consumers who buy SKF bearings from SKF USA authorized distributors regardless of where the SKF bearings came from. Worden testified in order to access the SKF hotline, a customer need only enter the [ ] that is procured from the SKF USA authorized distributor. *See* Worden, Tr. 488:7-489:23; **FF 100.** Thus, if an SKF USA authorized distributor purchases SKF bearings from the gray market and then sells them to an end user, *SKF USA will provide post-sale customer service support despite the fact that the SKF bearings came from the gray market.* This constitutes a clear difference between, for example, SKF USA quality controls and post-sale technical and engineering services. If an unauthorized distributor sells a SKF bearing to a consumer, and at the point of sale that consumer believes she is entitled to post-sale technical and engineering support by virtue of purchasing a genuine SKF bearing, her

expectations will be dashed because SKF USA only provides support to those who buy SKF bearings, again regardless of the source, from SKF USA authorized distributors. Unlike the other alleged material differences, the consumer of unauthorized SKF bearings is actually being deprived of a bundled service in the case of post-sale technical and engineering support that is afforded to purchasers of authorized SKF bearings. In addition to consumer confusion, the SKF trademarks will likely be diminished because the consumer will develop a negative opinion of the trademarks when she is denied post-sale customer service.

Again, this not only extends to on-site technical and engineering support but also to support through the SKF hotline. It is not disputed that the SKF hotline is designed to serve only customers of SKF USA authorized distributors. *See* Worden, Tr. 448:9-449:14; CX-848; **FF 101**. With regard to the kinds of problems that are dealt with through the SKF hotline, Worden testified that "most importantly what we are involved with is the maintenance, installation and lubrication of products. Often we will get calls from our end users who are installing our product and they need to know what size to make the shaft, the housing, what lubrication to use, how to actually apply the bearing to their piece of equipment." *See* Worden, Tr. 456:21-457:18; **FF 102**. Respondents claim that in practice the hotline has been available to all SKF bearings owners, including those who purchase SKF bearings from unauthorized sources. However, even Respondents concede that in concert with this investigation, SKF USA has taken additional steps to prevent abuse of the hotline by unauthorized customers, including the use of a "black list." *See* Worden, Tr. 496:15-497:6; RIB 104; **FF 103**. Although

SKF USA may have been slow to enforce the restriction, as Respondents suggest, that argument is better made within the context of an affirmative defense. At this time, SKF USA has taken reasonable steps to restrict the use of its hotline to authorized customers. Respondents' bold assertion that the SKF hotline is still essentially available to all purchasers of SKF bearings avails it of nothing. Respondents believe that trading off the goodwill of SKF USA by hoping that unwitting consumers of unauthorized bearings who wish to get technical support will run the gauntlet of blacklists and other such hurdles is a small price to pay for maintaining their gray market activities. However, this is no defense at all because if a consumer purchases SKF bearings from an unauthorized source believing she will have access to the SKF hotline without impediment, her expectations will be dashed causing confusion and damaging the goodwill of the SKF trademarks.

It must be borne in mind that while bearings may appear to be a relatively low-tech product, they tend to operate in complex machines and other applications. By implication, bearings consumers fall far closer to the "sophisticated" end of the consumer-type spectrum. This then would tend to militate against a finding of infringement absent proof that would satisfy a higher "threshold of materiality." The evidence adduced, however, demonstrates that despite the fact that Respondents' customers are on the whole sophisticated consumers, a significant number of purchasers of unauthorized SKF bearings erroneously believe that they are entitled to the level of support engendered in SKF USA's post-sale engineering and technical services. This is precisely the species of "subtle differences" alluded to in *Nestle*, *supra*.

Appendix C

Respondents, as conceded in the testimony of Michael McGuire, *supra*, recognize that technical and engineering support is important to their customers; but because they are unwilling to bear the full cost of such services, Respondents provide inferior or conditional post-sale support, or attempt to free-ride off the services provided by SKF USA. This gives the mere illusion to Respondents' customers that they are entitled to the full benefit of SKF USA's post-sale technical and engineering support, or something closely approximating it, before purchasing unauthorized SKF bearings. Indeed only when that support is needed, free of charge, is the sophisticated bearings consumer made aware of the difference. For example, it is highly unlikely that even the most sophisticated bearings consumer is aware of SKF USA's "blacklist" of prohibited callers to the SKF hotline. It is also likely that consumers will not fully appreciate the subtle differences between the level of support offered, for example, by Respondent McGuire, which presumably is determined on a case-by-case basis, *see infra*, and the regular services provided by SKF USA, *see supra*. Put plainly, even if Respondents' customers are highly sophisticated consumers, the likelihood exists that an appreciable number of Respondents' customers will be confused as to the degree of post-sale technical and engineering support they are entitled to because of the very subtle nature of those differences.

In sum, since Respondents cannot prove that they provide comparable services with regard to on-site technical support and the SKF hotline, there is a material difference based on post-sale technical and engineering services between authorized and unauthorized SKF bearings, and therefore a presumption

of a likelihood of confusion.[14] Since Respondents do not rebut

---

14. McGuire is the only Respondent to offer even remotely similar services to SKF USA. However, the availability of these services is suspect at best. Moreover, testimony at trial established that these services, when they occur, are generally offered only at a price to small end users. At trial, Michael McGuire testified:

> Q: For the services related to bearings that McGuire provides, when you provide those services to nonbearing customers, do you charge for them?
>
> A: In some cases we do, yes.
>
> Q: How about to bearing customers?
>
> A: In some cases we do. In some cases we don't.
>
> Q: What determines when you charge and when you don't?
>
> A: Basically the volume of business we have. We have some people we have on a contract, a monthly service contract. We do condition monitoring for them. If they need a bearing failure analysis, we might throw one in for nothing, but, you know, that type of thing.
>
> Q: So basically big customers are more likely to get it free than small customers?
>
> A: Correct.
>
> JUDGE TERRILL: Is it dollar amount or volume amount?
>
> THE WITNESS: It is kind of up to the sales manager, my brother Dave. It isn't really — I don't think we have a set thing. If we're, you know, if it is a new possible customer, you know, we might do something for them, or something like that.

McGuire, Tr. 5412:12-5413:9.

this presumption, there is a likelihood of confusion and therefore a violation of Section 337.

Issue I.B.5: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in packaging and labeling standards?

Complainant's Position

According to SKF USA, authorized SKF bearings differ materially from Respondents' unauthorized SKF bearings in adherence to rigorous packaging, labeling and date-coding standards. CIB 121-36; CRB 90-100. SKF USA points to three differences in particular: (i) conformity with SKF USA's "S-9" packaging standard; (ii) re-boxing practices; and (iii) date-coding practices on the boxes. *See* CIB 123-34. SKF USA further contends that the packaging and labeling practices of its Chicago Rawhide division are so far removed from those of SKF USA's SKF Bearings Unit (the unit that distributes the "authorized" SKF-brand bearings, according to SKF USA) that consumers are not confused by CR's use of the SKF trademarks. *See* CIB 134-36; CRB 96-100.

SKF USA rejects the arguments of Respondents that SKF USA's packaging standards are not followed by SKF USA's authorized distributors, and for that reason cannot be applied to Respondents as a "material difference" between authorized and unauthorized SKF-brand bearings. *See* CRB 92.

According to SKF USA, its authorized distributors are not a proper point of comparison with Respondents in the respective distribution chains; rather, the practices of SKF USA itself should be compared to the practices of Respondents. *See* CRB 92-93. Even if such a comparison were to be made, however, SKF USA asserts that it is the trademark holder's right to *control*, the quality of its products at the distributor level, not the actual quality of the goods at that level, that determines whether "material differences" exist. *See* CRB 93-94, *citing El Greco Leather Products Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986), *cert. denied*, 484 U.S. 817 (1987) ("*El Greco*").

SKF USA also argues that the expert testimony and evidence of Gary Dowley, Respondents' expert witness on the packaging and labeling practices of SKF USA's authorized distributors, is flawed by too small a sample size, counsel-picked sample choice and overemphasis on "worst cases." *See* CRB 94-95. SKF USA further notes that even if authorized distributors do not always conform to SKF USA's standards, SKF USA counteracts it by assisting its authorized distributors in complying with its packaging and labeling standards. *See* CRB 95-96.

Respondents' Position

Respondents contend that their unauthorized SKF-brand bearings are not materially different with respect to packaging and labeling standards from SKF USA's authorized SKF-brand bearings because SKF USA's standards are not passed down to its authorized distributors, and because the packaging and labeling practices of those authorized

distributors are no different from Respondents' own practices. *See* RIB 109-26; RRB 66-69. Further, Respondents maintain, SKF USA itself has made, or has authorized others to make, significant sales that do not comply with its packaging and labeling standards, including sales of SKF bearings in non-SKF boxes and sales of non-SKF bearings in SKF boxes, and also including the sale of bearings to non-authorized distributors without regard to whether SKF USA's packaging standards are observed. RIB 126-29. Respondents also argue that differences in packaging and labeling, even if they exist, are not material because they are unimportant to customers. *See* RRB 70.

Commission Investigative Staff's Position

Staff takes the position that there are no "material differences" between the packaging and labeling used in connection with SKF USA' products as compared to that used for Respondents' products. *See* SIB 38-39; SRB 19-22. According to Staff, SKF USA has extensive written packaging and labeling standards known as the "S-9" standard, but the evidence shows that the packaging and labeling employed by SKF USA's authorized distributors on SKF-brand bearings does not necessarily conform to those standards, nor does SKF USA require its authorized distributors to follow them. SIB 38; SRB 20. Staff also argues that even if differences exist, there is no evidence that they are "material" because customers do not consider them to be significant. SIB 38-39. Further, Staff maintains that Respondents' occasional repackaging of SKF-brand bearings in their own boxes or in "generic" boxes does not cause customer confusion sufficient top constitute trademark

infringement because it is inherently obvious that such products have been repackaged. SIB 39, *citing Enesco Corp. v. Price/Costco Inc.*, 146 F.3d 1083, 1087 (9th Cir. 1998) ("*Enesco*"); SRB 21-22. Moreover, Staff maintains, authorized distributors occasionally *follow* this repackaging practice as well because SKF USA does not make enough spare boxes available. SRB 20. Staff also argues that differences in date coding are immaterial as well because SKF USA itself uses new codes when repackaging products that bear no relation to date codes on the bearings themselves, and because most people cannot read the SKF USA date code anyway. *See* SRB 21.

Discussion, Analysis, and Conclusion

Product Packaging

SKF USA adheres to written packaging standards, called the "Packaging Standard S9" or "S9." *See* Stevens, Tr. 583:16-584:4; 586:9-587:8; CX-660C; CX-2388C; **FF 104.**[15] The S9 packaging standards require, *inter alia*, that packaging be [

] *See* CX-2388C (S9 ¶ 2.2 at SKF004180); **FF 106.** These standards also call for the two SKF packaging marks at issue in this investigation to be [ ] *See* CX-2446C (Bergqvist Decl. ¶ 15 and Ex. A at SKF005355-5364); **FF 107**. The S9 also requires the markings on SKF packaging to be [

15. Chapter 02 of the S9 Standard contained in Exhibit CX-2388C was updated, and the updated version appears in Exhibit CX-660C. *See* Stevens, Tr. 586:9-587:8; CX-660C; **FF 105.**

] *See* CX-2388C (S9 ¶ 2.2 at SKF 004180); **FF 108.**

Through inspections of Respondents' facilities, SKF USA learned during the discovery phase of this investigation that Respondent [

]. Young, Tr. 2065:2-2066:22; CPX-6.0C; **FF 109.** SKF USA also found that [

]. Young, Tr. 2066:18-22; CPX-6.OC; **FF 110.**

] **FF** [ ]. As of August 14, 2002, the date of [

] **FF 112**. As of that date, [

] **FF 113.**

SKF USA also found during its inspection that upon receipt of bearings [

] **FF 114**. [

] **FF115**.[

] **FF 116**. [

] **FF 117**. [

] **FF 118**.

Appendix C

As for Respondent McGuire, Michael McConville, formerly an employee with Truss Joist, a sawmill equipment manufacturer, testified that McGuire sold bearings in early 1999 to Truss Joist in packages that were worn, distressed, inadequate, and of poor quality generally, but he was uncertain as to whether the SKF-brand bearings sold by McGuire to Truss Joist met that description as well. McConville, Tr. 973:4-976:6, 1006:7-1008:7; **FF 119**. According to the testimony of Brad Kellogg of Electric Motor Service Company, an electric motor repair and sales firm, McGuire also sold SKF bearings to that company in damaged packaging that was scuffed, bent or rubbed. Kellogg, Tr. 1688:13-20; **FF 120**. According to the testimony of [ ] Young, Tr. 2076:5-15; CPX-48.1; CPX-48.2; **FF 121**. [ ] Also in 2001, McGuire sold SKF bearings to [ ] in generic non-SKF packaging and labeling. Young, Tr. 2076:19-2077:21; CPX-51.11; CPX-51.12; CPX-51.13; **FF 122**.

During its inspections of several of the Respondents' facilities, SKF USA took photographs showing that [ ] *See* CPX-65C [ ]; CPX-66.0C [ ]; CX-505C [ ]; CPX-64.0C [ ]; CPX-59.0C [ ]; CPX-62.0C [ ]; CPX-60.0C [ ]; CPX-63.0C [ ]; **FF 123.**

The S9 packaging standard is used by SKF USA and SKF Group companies throughout the world. *See* CX-2388C at SKF 004180-4181; FF 124. Thus, all SKF-brand bearings

that SKF USA receives directly from SKF Group companies for distribution in the U.S., as well as all SKF-brand bearings that Respondents receive directly from SKF Group MUs for distribution in the U.S., adhere to the exact same packaging standard up to that point in the distribution chain. Although there is scant evidence in the record as to whether SKF USA's Chicago Rawhide division adheres to the S9 packaging standard,[16] since S9 is used by SKF Group companies throughout the world, it is therefore safe to assume that it applies to CR as well.

It follows, therefore, that the earliest point in time at which any deviation from the S9 standard could arise, in the case of Respondents, at some point in time *before* the packaged SKF-brand bearings leave Respondents' facilities on the way to Respondents' customers. In the case of SKF USA, on the other hand, it would arise at some point *after* packaged SKF-brand bearings leave SKF USA's Crossville, Tennessee facility on their way to "first-tier" authorized distributors, OEMs, and (in the case of CR's sales) the VSM. However, apart from direct sales to OEMs and CR's sales to the VSM, SKF USA's SKF-brand products go through one extra step in the distribution chain after they leave SKF USA's facility that Respondents' SKF-brand products do not go through — they are sent to SKF USA's authorized distributors

16. SKF USA's vice president for logistic services, Jon Stevens, testified that he did not know what kind of packaging CR uses when it sells SKF bearings or whether the packaging used by CR to sell SKF bearings includes a date code. *See* Stevens, Tr. 615:11-616:6; **FF 127**. Stevens indicated, however, the CR has its own quality organization and quality control procedures. Stevens, Tr. 674:1-4; **FF 128**.

for sale to end-users in the industrial aftermarket. However, SKF USA does not impose its S9 packaging standard on these authorized distributors and has never terminated an authorized distributor for selling SKF bearings that were not in "mint condition" packaging. Stevens, Tr. 611:18-22, 613:24-614:12; Clark, Tr. 4574:15-18; **FF 125**. All SKF USA does at that point is to offer different packaging options to distributors, consistent with the S9 standard, that suit the "different configurations of the packaging that may be more suitable to customers." Stevens, Tr. 587:9-588:11; CX-645; **FF 126**.

As a result of this extra step, industrial aftermarket purchasers of SKF-brand bearings face the same type of supplier from a packaging standpoint regardless of whether they buy from authorized or unauthorized distributors — one who is not required to adhere to SKF's S9 packaging standard. OEM purchasers who purchase directly from SKF USA and VSM purchasers who buy from CR are in a somewhat different position from those who purchase from Respondents, of course, because SKF-brand bearings bought from SKF USA or CR are supposed to conform to S9 packaging standards, whereas SKF-brand bearings bought from Respondents need not do so. *See* CRB 93. However, SKF USA has offered no evidence and has made no argument as to whether OEM or VSM purchasers consider such differences in packaging to be "material" to them.[17]

17. As for VSM customers of Chicago Rawhide, SKF USA argues that CR's packaging standards are "of marginal relevance" to this case because CR does not use the two design/packaging trademarks at issue. *See* CRB 97. Further, CR's vice president and

(Cont'd)

Appendix C

The evidence of record demonstrates that SKF USA's authorized distributors in the industrial aftermarket do not adhere to SKF USA's stringent packaging standards any more than Respondents do. Respondents' experts, Gary Dowley and Michael Nolan, studied SKF USA's authorized distributor network and evaluated its inventory for the presence of damaged packaging, open boxes, defaced or degraded labels, aged bearings, handwriting or marking on packages, and product from certain facilities abroad. *See* Dowley, Tr. 5431:3-5432:4; RDX-0010; **FF 130**. Dowley and Nolan evaluated 15 authorized distributor locations across 11 different states, including western, mid-western and eastern states. Dowley, Tr. 5432:5-5433:13; RDX-0011 C; RDX-0012C; **FF 131**. As a result of their study, Dowley and Nolan found significant amounts of nonconforming product in the authorized distributors' inventories. Dowley, Tr. 5435:8-5436:1; RDX-0013; **FF 132**. In particular, the evidence presented by Dowley and Nolan at trial included photographs that [

] **FF 133**.[18] [

(Cont'd)

general manager for aftermarket sales, William Diggory, offered testimony at trial suggesting that the terms and conditions of CR's sales to its customers are dictated by its customers, not the other way around. *See* Diggory, Tr. 5726:9-20; **FF 129**. Thus, the packaging standards used in CR's sales to the VSM are not relevant to a "material differences" analysis.

18. The parties have stipulated to the authenticity and admissibility into evidence of the photographs appearing in RX-2001C, RX-0680C, and RX-2004C. *See* Jt. Stip. No. 1.

Appendix C

] **FF 134.** [

] **FF 135.**

The evidence of record also demonstrates that SKF USA's authorized distributors have the intention to sell the bearings housed in substandard packaging such as those found by Dowley and Nolan's study. As one of several examples, Creed Headrick of authorized distributor Motion Industries' Baltimore, Maryland branch testified that his firm has sold and will sell SKF bearings in torn or opened boxes after resealing them with cellophane tape. Headrick, Tr. 4245:2-15, 4247:8-23; RX-2001C at MOT-Baltimore P0001839, MOT-Baltimore P0001896; **FF 136.** According to Headrick, Motion Industries' Baltimore branch has sold and will sell SKF bearings in boxes with stickers affixed that obscure the SKF trademark. Headrick, Tr. 4245:16 - 4246:11, RX-2001C at MOT-Baltimore P0001855; **FF 137.** He further acknowledged that his firm has sold and will sell SKF bearings in boxes with handwriting on the label and/or box. Headrick, Tr. 4245:16 - 4246:11; RX-2001C at MOT-Baltimore P0001855; **FF 138.** Similar testimony was elicited from Scott Callahan, the branch manager of the Philadelphia, Pennsylvania branch of SKF USA's authorized distributor EIS. Callahan, Tr. 4786:14 - 4792:19; RX-2001C at EIS-HOLDEN-PHILA. PA PA020092, EIS-HOLDEN PHILA. PA PA020108 - PA020110, EIS-HOLDEN-PHILA. PA PA020157, EIS-HOLDEN-PHILA. PA PA020171; **FF 139.** In fact, Callahan testified that as long has he knew what the bearing was and can identify the bearing, the packaging is not too relevant to him as long as the bearing is in good condition and he would sell it. Callahan, Tr. 4793:15-23; **FF 140.**

Appendix C

The evidence adduced at trial also demonstrates that business practicality supports the position of SKF USA's authorized distributors to sell SKF-brand products housed in such packaging, because it does not make sense to carry product in inventory that cannot be sold. There are costs associated with carrying product in inventory, and as an accounting matter a business cannot carry product it cannot sell. As Dowley testified at trial:

> JUDGE ERRILL: Answer my question. Do they just keep it around for the heck of it? I mean is it —
>
> THE WITNESS: No, sir.
>
> JUDGE TERRILL: — supporting their shelves or something?
>
> THE WITNESS: No, sir, no, sir. There are several reasons for that. One is that inventory sitting on the shelves is an asset to the company. It is money on the books. There is a fiscal responsibility to ensure that you don't have money on the books that is not there. The value of a bearing that cannot be sold is essentially zero, at best it is scrap value.

Dowley, Tr. 5453:1-13; **FF 141**. Accordingly, it is reasonable to conclude that the poorly-packaged products that Dowley and Nolan observed in the inventories of SKF USA's authorized distributors are intended for eventual sale in such packaging condition.

Appendix C

SKF USA's contentions that Dowley and Nolan's study was flawed by too small a sample size, lack of random selection of authorized distributors in favor of Respondents' counsel-picked "worst cases," and lack of attention to the source of the chosen distributors' substandard products, have no merit. *See* CRB 94-96. The instances gathered by SKF USA of Respondents' failure to adhere to S9 packaging standards suffers from the same deficiency. Indeed, the evidence offered by SKF USA uncovered very few examples of substandard packaging and labeling at Respondents' facilities and fails to show any overall pattern of substandard packaging or labeling on Respondents' part that differs in any material way from the equally substandard practices of SKF USA's authorized distributors.[19]

The presence of authorized products in substandard packaging on the shelves of even a small number of authorized distributors merely serves to confirm that SKF USA exercises no control over the packaging standards of

19. SKF USA's evidence of allegedly substandard packaging practices at Respondents' facilities was generally unreliable, including, for example, the testimony of Michael McConville, a former customer of McGuire, who spoke of receiving bearings from McGuire in substandard packaging but could not point to any instance in which McGuire had sent him SKF-brand bearings in substandard packaging. *See* McConville, Tr. 973:4-976:6, 1006:7-1008:7. What is more, the evidence presented by SKF USA of substandard packaging at Respondents' facilities was presented without any expert testimony to interpret it, because William H. Drumm, SKF USA's expert on such matters, had to be excluded from testifying because of the failure on SKF USA's part to adhere to requirements of the Protective Order in retaining Drumm as an expert. *See* Order No. 95 (December 9, 2002).

its authorized distributors, and is enough to eliminate that distinction as a "material difference" to purchasers for infringement purposes.[20] As has already been pointed out in connection with physical differences, "[a]s long as plaintiffs have *ever approved* a piece for importation and sale in this country, [defendant] is free to sell any individual piece of the same quality from the same product line." *Martin's Herend, supra*, 112 F.3d at 1304 (emphasis added). Moreover, just as with a trademark holder having ineffective quality control standards, the fact that SKF USA lacks control over its authorized distributors' packaging standards will "predictably result in some sales of non-conforming goods," and SKF USA's trademarks will therefore reflect "a value based on the presence in the marketplace of those goods. To be entitled to relief against a later seller of non-conforming goods, such a trademark holder must show that the later sales *measurably diminish the value of an already partially devalued mark*." *Warner-Lambert, supra*, 86 F.3d at 7 (emphasis added). SKF USA has offered no evidence to show that Respondents' noncompliance with the S9 packaging standard measurably diminishes the value of its trademarks any further than the partial devaluation of those marks that

---

20. It also undermines SKF USA's argument, dealt with later in this Initial Determination in section I.B.7, that its ability to conduct product recalls is materially different from Respondents. This is so because product codes and date codes are important items of identifying information in effectuating a recall, and the lack of packaging and labeling standards on the part of authorized distributors makes it no easier to discern this information from their re-packaged products than it is from Respondents' re-packaged products.

has been caused by the authorized distributors' own lack of adherence to S9.[21]

The foregoing evidence demonstrates that the probability that the SKF-brand bearings that purchasers in the industrial aftermarket buy either from SKF USA's authorized distributors or from Respondents are housed in packaging that conforms to the S9 standard at the point of sale is purely a matter of happenstance, not a matter of control on SKF USA's part. Consequently, SKF USA's S9 packaging standard does not qualify as a criterion on which a "material difference" between authorized and unauthorized SKF-brand bearings can be found, because it is not something "that consumers would be likely to consider . . . significant when purchasing the product . . . ." *Gamut Trading*, *supra*, 200 F.3d at 779. The evidence does not square with SKF USA's rationale from the *El Greco* case that it is the trademark holder's right to control the quality of its products at the distributor level, not the actual quality of the goods at that

---

21. SKF USA argues that it has policies to assist its authorized distributors in their compliance with SKF USA packaging/labeling standards, in that its representatives visit authorized distributors and "address matters pertaining to the correct packaging and labeling of the product. CRB 95, *citing* Headrick, Tr. 5530. The cited testimony, however, does not support this proposition at all. All Headrick testified about was the fact that SKF USA representatives have visited his authorized distributor facility for the "purpose for coming in, maybe a joint sales call, an issue we might have, packaging, whatever, just touching the problems that a branch has with selling product." *See* Headrick, Tr. 5530:24-5531:5. There is nothing about this testimony that suggests any kind of overarching "policy" on SKF USA's part to assist its authorized distributors with packaging complaince.

level, that determines whether "material differences" exist, because SKF USA does not have the right to control the packaging standards of its authorized distributors any more than it has that right vis à vis Respondents. *See* CRB 93-94, *citing El Greco, supra*, 806 F.2d at 395.

Product Re-boxing

SKF USA also contends that there are material differences between its re-boxing practices and the practices of Respondents. In this regard, SKF USA contends that no matter how careful warehouse and transport personnel may be, some damage to product packaging is inevitable. CIB 127. Also, SKF USA points out, a customer may desire a different quantity packing from what is available. *Id.* If an SKF product is returned to SKF USA, or if packaging is determined to be damaged, and the product integrity has not been compromised, SKF USA will re-box the product. Stevens, Tr. 626:4-9; **FF 142**. SKF USA will re-box imports as well as domestic products. Stevens, Tr. 626:10-13; **FF143**.

The repack room at SKF USA's Crossville warehouse is located in a separate room at the back of the warehouse. Wilson, Tr. 1998:16-17; **FF 144**. The repack room is separated from the rest of the warehouse by a plastic barrier, and is air conditioned. Wilson, Tr.1998:16-19; **FF 145**. When SKF bearings are repacked, the S9 packaging standard requires that a notation be made to indicate that the product has been repacked. An "X" indicates that product has been repacked. *See* CX-2388C (S9 at SKF 004187); CX-660C (S9 at SKF 091151); Wilson, Tr. 1993:16-1994:5; **FF 146.** When repacking is performed by SKF USA at the Crossville

warehouse, a date code is placed on the re-box that is a combination of the year of re-boxing and the original manufacturing date code of the enclosed bearing. Stevens, Tr. 625:9-626:18; **FF 147**. If an SKF USA authorized distributor discovers a damaged SKF box, the distributor can submit a re-box request to SKF USA, which will then provide the authorized distributor with a new box.

Through its inspections of Respondents' facilities, SKF USA learned that Respondent [

FF 148.

FF 149.

FF 150.

FF 151.

As for McGuire, SKF USA learned through its inspections that McGuire also repackages SKF bearings into non-SKF packaging. Peterson, Tr. 5047:17-5048:17; CPX-64.0C at SKF088027, SKF088281; **FF 152**. McGuire does not require that employees wear gloves during the process of repackaging SKF bearings. Peterson, Tr. 5048:6-5050:3; **FF 153**. McGuire's quality control and procedures manuals do not contain any guidelines for employees engaged in repackaging. Peterson, Tr. 5048:6-5049:3; **FF 154**.

It is unclear why SKF USA believes that its re-boxing process makes its authorized SKF bearings "materially different" from unauthorized SKF-brand bearings in any way that is likely to lead to customer confusion. SKF USA does not suggest that its re-boxing procedures are any "better" in

any qualitative sense than any of the re-boxing practices that its authorized distributors or any of Respondents follow, and thus there is no evidence that SKF USA's re-boxing practices correct, in some way that is superior to Respondents' re-boxing practices, "some defect (or potential defect) in *the product itself* that the customer would not be readily able to detect." *Enesco*, *supra*, 146 F.3d at 1087 (emphasis in original). Also, the evidence of record shows that SKF USA's authorized distributors re-box SKF bearings in non-SKF "generic" packaging just like Respondents do, and, in resealing packages, use nothing more fancy than cellophane tape to do the job. Circo, Tr. 2348:1-5 (Precision Industries); Davis, Tr. 2138:5-23 (Kaman); CPX-48.2; Headrick, Tr. 4245:10-15; **FF 155**. When such repackaging is done, customers are put on notice by the different packaging that someone has re-boxed the product, and such notification to customers averts confusion on their part. *See Enesco*, *supra*, 146 F.3d at 1086-87 (disclosure to consumers of repackaging of original product would avert confusion; infringement enjoined because of lack of such disclosure). Accordingly, re-boxing is not a "material difference" on which gray market trademark infringement can be based.

Date Coding

SKF USA's S9 standard requires a date code (in which each year is represented by a letter of the alphabet) to be placed on an SKF bearing box that signifies the date on which that bearing was originally packaged or repackaged. Stevens, Tr. 625:12-626:18; CX-2388C at 004186; CX-660C at 091149; **FF 156**. Exhibit CX-660C is a revision of SKF USA's S9 date coding standard in CX2388C that updates

the standard to add more years to the table of year date codes. Stevens, Tr. at 586:9-587:8; CX-660C; **FF 157**.

Through its inspections of Respondent [

FF 158.

FF 159.

FF 160.

FF 161.

As both SKF USA and [ ] (the only Respondent that SKF USA pointed to in connection with date codes) both [ ] there is no real difference at all between the two parties' practices. Moreover, since SKF USA's date codes are unreadable by anyone who does not know the key that links the [ ] to a particular year, it cannot be said that they are something "that consumers would be likely to consider . . . significant when purchasing the product . . . ." *Gamut Trading*, *supra*, 200 F.3d at 779. Accordingly, date-coding is not a "material difference" for trademark infringement purposes.

Conclusion on Packaging and Labeling Standards

In sum, SKF USA has not demonstrated that differences in packaging and labeling standards constitute "material differences" between SKF USA's authorized SKF-brand bearings and Respondents' unauthorized SKF-brand bearings. Rather, the practices are identical in every significant respect, and as such cannot constitute grounds

for infringement. *See Gamut Trading*, *supra*, 200 F.3d at 778-79; *Weil*, *supra*, 878 F.2d at 672. Consequently, they do not warrant a finding of gray market trademark infringement.

Issue I.B.6: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from those imported, sold or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in warranties?

Complainant's Position

According to SKF USA, another difference between authorized and unauthorized sales of SKF bearings lies in the warranty. CIB 136. SKF USA claims that it offers a one-year written warranty that runs not just to the distributor that initially purchases the bearing from SKF USA, but to subsequent purchasers as well. CIB 136 and 139. SKF USA also alleges that warranty claims are handled by SKF USA in a materially different way because returned bearings are subjected to laboratory failure analyses for defects, the results of which will be shared with the customer. CIB 140-42. If a bearing fails to perform for a reason that is not SKF USA's fault, then the distributor is charged $[ ] to defray the part of the costs associated with the analysis. *Id.*

SKF USA further argues that Bohls and CST offer no warranty at all for the SKF bearings that they sell. CIB 144-45. BL, according to SKF USA, offers a "returned goods policy," not a true "warranty," in that BL simply replaces

bearings that customers complain about. CIB 142. McGuire's alleged warranty is unclear, SKF USA maintains, in that its "standard terns and conditions" that accompany every sale of SKF-brand bearings offer only "such warranties as may be extended by the manufacturer of the product," which is no warranty at all because SKF USA does not provide such a warranty to McGuire. CIB 145-46. In place of a manufacturer's warranty, SKF USA notes, McGuire provides its own warranty, but it is materially different from SKF USA's warranty because (i) it applies only to products that McGuire imported itself, not to products that others imported; (ii) is distributed to customers only on request; (iii) does not warrant that the SKF bearings that it sells will be fit for the ordinary purposes for which such goods are used; and (iv) extends only to the customer who purchases the bearing from McGuire, not to any subsequent purchasers. CIB 146.

SKF USA rejects Respondents' contention that the SKF USA warranty is not extended to end-users who purchase bearings from Chicago Rawhide, because Chicago Rawhide provides its own warranty. CRB 101-02. As for settling respondents, SKF USA rejects Respondents' contention that the SKF USA warranty does not run to their products, because the settlement agreements provide that the settling entities must buy SKF bearings from authorized distributors; hence, the warranty will run to them as well. CRB 102. Regarding SKF bearings that authorized distributors buy from Respondents, SKF USA agrees with Respondents that they are not covered by the SKF USA warranty, and therein lies a material difference, according to SKF USA. CRB 102-03.

Appendix C

Respondents' Position

According to Respondents, there is no material difference between SKF USA's warranty for authorized SKF-brand bearings and Respondents' warranties for unauthorized SKF-brand bearings for several reasons. RIB 130-41. First, Respondents argue, SKF USA does not apply its warranty protections to many of the "authorized" SKF bearings sold through "authorized" distribution channels, such as Chicago Rawhide, Roller Bearing Company (a licensed distributor), and settling respondents RitBearing and Gulf. RIB 131-32. Also, since many authorized distributors regularly purchase bearings from Respondents when they cannot get the parts from SKF USA, those sales are not covered by the SKF USA warranty, Respondents maintain. RIB 132. Second, Respondents argue, the existence and terms and conditions of SKF USA's warranty are not conveyed to end-users of SKF bearings, and authorized distributors are not aware of its terms and extend their own warranties to customers instead. RIB 132-33. Respondents also contend that customers and end-users of bearings are either unaware or unconcerned about the manufacturer's warranty when they make purchasing decisions because warranty claims are rare. RIB 134; RRB 72-76.

Third, Respondents contend, SKF USA's warranty is merely a restatement of the standard warranty offered throughout the industry and is, therefore, not materially different from the standard warranties offered by Respondents. RIB 135. Under the Uniform Commercial Code of the four states in which Respondents operate, the law implies warranties of merchantability and fitness for intended

purposes in all sales of goods, whether gray market goods or authorized goods. *Id.* SKF USA's warranty, Respondents contend, provides little more protection than would be implied by law in the absence of a disclaimer. RIB 136.

Fourth, Respondents argue that SKF USA's allegations with respect to warranty are pretextual, calculated to create a perceived "material difference." RIB 138. No written warranty to end users of SKF bearings purchased from SKF USA was offered before 2001, Respondents contend, and it was not until December 2001, three months before the filing of the Complaint in this investigation, that the Industrial Distributor Agreement was modified to include a written warranty to authorized distributors. RIB 138-39. Finally, Respondents contend that the fact that SKF USA provides a "root cause" analysis is a red herring because SKF USA charges customers $[ ] for the service unless the customer is a large end users or an OEM. Additionally, Respondents note that SKF USA provides failure analyses of bearings made by other manufacturers as well. RIB 140; RRB 80-82. This failure analysis, Respondents argue, is merely a separate service for which customers are charged, not a part and parcel of the purchase of a bearing. RIB 140; RRB 80-82.

Respondents further argue that by not honoring its warranty on claims submitted by non-authorized distributors or end-users, SKF USA has no warranty on many millions of "authorized" bearings that are purchased and sold in the U.S. marketplace from OEM resales, government resales, domestic surplus auctions, non-authorized distributors and surplus dealers who purchase SKF bearings from SKF USA authorized distributors, and from non-authorized distributors

such as Gulf, RitBearing and BDI who on occasion have purchased SKF bearings directly from SKF USA. RRB 71. Respondents also argue that there are no hard and fast standards against which to compare warranty protections of SKF USA and Respondents. RRB 77.

Commission Investigative Staff's Position

According to Staff, differences between the warranties offered on the authorized SKF-brand bearings and the unauthorized SKF-brand bearings constitutes a material difference in the products. SIB 40. Staff is of the view that bearings authorized by SKF for importation and sale come with the manufacturer's warranty, while gray market bearings do not. SIB 40; SRB 22. Although Respondents claim that in practice their return and warranty services are the same as SKF USA's, Staff argues, the fact is that SKF simply has a better ability to find the problem and replace the bearing than do any of the Respondents. *Id.* Customers expect a manufacturer's warranty with their products, Staff argues, and Respondents' different warranties constitute material differences in the gray market products. *Id.* In particular, Staff notes, Respondents cannot necessarily replace a returned SKF bearing in kind, but must sometimes issue a credit or substitute another brand. SIB 41.

Discussion, Analysis, and Conclusion

Concerning differences in warranties, a determination must first be made as to what aspects of SKF USA's warranty are really different from Respondents' warranties.

Appendix C

SKF USA's Warranty

SKF USA's written warranty is set out in its December 2001 Industrial Distributorship Agreement with its authorized distributors. CX-1064; **FF 162**. SKF USA also provides a warranty to its OEM customers, and OEM warranty claims are handled by the OEM customer service department. Scheib, Tr. 696:23-697:6; **FF 163**. Their procedures are essentially the same as those of the aftermarket customer service department. Scheib, Tr. 697:9-17; **FF 164.**

Under the terms of the industrial distributorship warranty, SKF USA warrants to the distributor that products sold by SKF USA "when properly installed, will be free from defects in material and workmanship and shall be fit for the ordinary purposes for which such Products are designed." Scheib, Tr. 692:12-693:19; CX-1064 at ¶ 7.1; **FF 165**. The warranty runs for one year from the date of sale to the distributor. Scheib, Tr. 697:22-698:8; CX-1064 at ¶ 7.1; **FF 166.** The warranty further provides that SKF USA will replace the bearing or refund the purchase price. CX-1064 at ¶ 7.1; **FF 167**. All other warranties, express or implied, are disclaimed. CX-1064 at ¶ 7.1; **FF 168.**

The warranty also provides that SKF USA extends its coverage to the customer of the authorized distributor. Paragraph 7.2 of the agreement, which is entitled "Limited Warranty on Sales to Consumers," provides that the SKF USA warranty "shall be deemed made to any and all persons or entities by SKF with respect to the Products." Scheib, Tr. 693:20-694:20; CX-1064 at ¶ 7.2; **FF 169.** Furthermore, although the written warranty does not explicitly so state,

SKF USA interprets this provision to mean that when the bearing is sold by the authorized distributor to an end-user, the 12-month period of the warranty begins to run anew. Scheib Tr. 698:9-17, 721:1-15; **FF 170**.

SKF USA's obligation under the warranty to replace a defective bearing or to refund the purchase price to the buyer is expressly conditioned by Paragraph 7.1 on, *inter alia*, "SKF's laboratory examination of the returned Product and determination regarding the existence of any defect contrary to this limited warranty." CX-1064 at 7.1; **FF 171**. Under this provision, a warranty claim is handled by SKF USA in one of two ways. If the claim concerns a problem with a bearing that has not yet been installed in a machine, or a problem that was discovered at the time of installation, then the claim is treated as one for "non-conformance" of the product. Scheib, Tr. 685:15-686:4, 730:8-14; **FF 172**. In such a case, the bearing is returned to SKF USA for laboratory analysis. Scheib, Tr. 686:5-8; **FF 173**. If the analysis shows that the bearing is defective, SKF USA issues a credit to the authorized distributor, who can then pass the credit on to the end user. Scheib, Tr. 686:8-9; **FF 174**. If the claim is found to be invalid — if the bearing is not defective — SKF USA will convey the results of the analysis to the authorized distributor, so that it can discuss the findings with the end user. Scheib, Tr. 686:9-12; **FF 175**. In either event, there is no charge for the non-conformance analysis. Scheib Tr. 687:4-19; **FF 176**.

If, on the other hand, the complaint concerns a problem with the bearing that has developed after the bearing has been installed and run in a machine for some period of time, the

complaint is treated as one for non-performance of the product, in which case SKF USA will conduct a failure analysis of the bearing. Scheib, Tr. 687:23-688:14; **FF 177**. Before undertaking the failure analysis, SKF USA asks the distributor to agree that, if the analysis shows that the performance problem was not SKF USA's fault, that the distributor will pay $400 to defray the costs of the analysis. Scheib, Tr. 688:15-689:16; **FF 178**. The $[ ] charge does not cover the full cost of the failure analysis. Worden, Tr.542:9-543:4; **FF 179**. If the failure analysis reveals that SKF USA was at fault — for instance, if the bearing was defective or damaged, or SKF USA recommended the wrong bearing for the application — then SKF USA bears the full cost of the failure analysis. Scheib, Tr. 688:15-19; **FF 180.** If the analysis reveals that the failure was not the fault of SKF USA, then the distributor bears the cost of the analysis. Scheib, Tr. 689:7-16; **FF 181**. As with the non-conformance analysis, SKF USA again shares the results of the failure analysis with the distributor, who can share them with the end user. Scheib, Tr. 689:17-690:3; **FF 182**. If the analysis shows that the problem was in the installation, maintenance, lubrication, or use of the bearing, the end user can use that information to solve the problem, and avoid costly downtime. Scheib, Tr.689:17-690:3, 713:17-714:9; **FF 183**.

BL's Warranty

Respondent BL guarantees that the bearings it sells are free from defective material or workmanship. BL further warrants that any bearing proving defective within one year from the date of purchase will be replaced free of charge provided the defective bearing is returned to BL's Hauppage,

New York facility and found by BL to have been properly mounted, lubricated, loaded and used. Scala, Tr. 3103:5-13; CX-2071 at BL000768; **FF 184**. BL's warranty extends only to BL's distributor customers, not to the customers of those distributors. Scala, Tr. 3105:19-3106:3; **FF 185**. According to the trial testimony of BL's quality control supervisor, Arthur Brandt, BL examines returned bearings to determine what is wrong with them, and on the basis of such examination prepares a "Return Goods Authorization" ("RGA") on the basis of which BL issues a credit to the customer if the bearing is defective and denies credit if the cause of the bearing's failure is the customer's fault. Brandt, Tr. 2908:2-4, 2914:24-2923:15, 2926:20-24, 2928:11-14; CX-2033C; CX-2035C; CX-2039C; CX-2040C; CX-2041C; CX-2043C; CX-2044C; **FF 186.** Brandt did not consider these examinations to be formal failure analyses, however. Brandt, Tr. 2932:11-13; **FF 187.**

McGuire's Warranty

Respondent McGuire provides in its Standard Terms and Conditions of Sale that bearings are sold only with such warranties as may be extended by the manufacturer of the product. Steve McGuire, Tr. 3278:5-11; CX-0525; **FF 188**. In all other instances where the manufacturer does not extend a warranty, such as the SKF-brand bearings that McGuire imports and sells, McGuire provides its own warranty. Steve McGuire, Tr. 3282:8-22, 3289:11-25; CX-524; **FF 189.** However, McGuire does not distribute its warranty to its customers with their purchase of bearings; rather, it is kept in McGuire's corporate files and is distributed to customers only upon request. Steve McGuire, Tr. 3280:19-3282:7; **FF 190.**

Appendix C

The McGuire warranty provides that "any bearings sold by McGuire Bearing Company will be free from defects in material and workmanship for a period of one (1) year after the date of shipment." CX-524; **FF 191**. It further provides that "[i]f any of the Goods are found by [McGuire] to be defective, such Goods will be replaced at [McGuire's] cost, exclusive of labor and installations costs." CX-524; **FF 192**. All other warranties, express or implied, are disclaimed. CX-524; **FF 193**. The McGuire warranty extends only to the customer who purchases the bearing from McGuire, not to any subsequent purchasers. Steve McGuire, Tr. 3293;4-1 1; **FF 194**. The McGuire warranty further provides that "[c]laims for defective material or workmanship must be verified by an authorized representative of [McGuire]." CX-524; **FF 195**. The bearings for which a warranty claim is made must be delivered to McGuire's plant, and the purchaser's remedy is limited to a replacement bearing. CX-524; **FF 196.**

Bohl's Warranty

Respondent Bohls provides no written warranty to its customers. Bohls, Tr. 3494:21-25; **FF 197**. Bohls' policy is that if an SKF bearing sold by Bohls fails, Bohls will replace the bearing once; if the replacement bearing also fails, Bohls will not replace it, on the premise that if there are two failures, the problem is not with the bearing. Bohls, Tr.3495:1-8; **FF 198.** Bohls does not conduct a failure analysis for bearings that are returned to it. Bohls, Tr. 3495:9-11; **FF 199.**

Appendix C

CST's Warranty

Respondent CST also does not provide any written warranty for the SKF bearings that it sells. Townsend, Tr. 2419:25-2420:2; **FF 200**. CST does not conduct a failure analysis; if it had to, it would hire an outside company to perform it. Townsend, Tr. 2420:13-17; **FF 201.**

Analysis of Materiality of Differences in Warranties

Turning now to whether these various policies are different from one another, it must first be observed that the mere fact that some parties have written warranties and others do not is a distinction without a difference. All of the parties are obligated to guarantee the merchantability and fitness for ordinary purposes of the SKF-brand bearings they sell, either expressly in writing or implicitly by law. All of the states where Respondents are located — California (CST), New York (BL), Oregon (McGuire) and Texas (Bohls) - have adopted Article 2 of the Uniform Commercial Code, which attributes to all sales of goods an implied warranty of merchantability and fitness for ordinary and particular purposes under U.C.C. sections 2-314 and 2-315, unless disclaimed expressly or by conduct under U.C.C. section 2-316. *See* Cal. Com. Code §§ 2314, 2315, 2316 (West, 2003); N.Y. U.C.C. §§ 2-314, 2-315, 2-316 (McKinney, 2003); Or. Rev. Stat. §§ 72.3140, 72.3150, 72.3160 (2001); and Tex. Bus. & Com. Code Ann. §§ 2.314, 2.315, 2.316 (Vernon,

2003).[22] Thus, Bohls and CST stand in no different position

---

22. For example, the California version of U.C.C. § 2-314, identical to those of the other states, is as follows:

> (1) Unless excluded or modified (Section 2316), a warranty that the goods shall be merchantable is implied in a contract for their sale if the seller is a merchant with respect to goods of that kind. Under this section the serving for value of food or drink to be consumed either on the premises or elsewhere is a sale.
>
> (2) Goods to be merchantable must be at least such as
>
> (a) Pass without objection in the trade under the contract description; and
>
> (b) In the case of fungible goods, are of fair average quality within the description; and
>
> (c) Are fit for the ordinary purposes for which such goods are used; and
>
> (d) Run, within the variations permitted by the agreement, of even kind, quality and quantity within each unit and among all units involved; and
>
> (e) Are adequately contained, packaged, and labeled as the agreement may require; and
>
> (f) Conform to the promises or affirmations of fact made on the container or label if any.
>
> (3) Unless excluded or modified (Section 2316) other implied warranties may arise from course of dealing or usage of trade.

(Cont'd)

from SKF USA, BL and McGuire as far as the basic fact of providing a warranty is concerned, because none of these parties has expressly or by conduct completely disclaimed all warranties of merchantability and fitness of the SKF-brand bearings that it sells.

It must also be noted that the implied warranties of the Uniform Commercial Code that Bohls and CST must honor are broader in scope than the express written warranties of SKF USA, BL and McGuire because the implied warranties have no pre-conditions. By contrast, the written warranties of SKF USA, BL and McGuire all disclaim and limit the coverage of the statutory implied warranties by pre-conditioning a buyer's receipt of a refund or replacement on some kind of "failure analysis," examination, or pre-verification of the defect by the seller before making a refund or replacement.

Notwithstanding these essential similarities and differences in the warranties of the various parties, the only

---

(Cont'd)

Cal. Com. Code § 2314 (West, 2003). The California version of U.C.C. § 2-315 states:

> Where the seller at the time of contracting has reason to know any particular purpose for which the goods are required and that the buyer is relying on the seller's skill or judgment to select or furnish suitable goods, there is unless excluded or modified under the next section [U.C.C. § 2-316] an implied warranty that the goods shall be fit for such purpose.

Cal. Com. Code § 2315 (West, 2003).

differences identified by SKF USA and Staff that as constituting "material differences" between SKF USA's warranty on the one hand, and one or more of the warranties of the Respondents on the other, consist of the following: (i) the reach (or lack thereof) of each party's warranty to end-users; (ii) the status of SKF USA's warranty as a "manufacturer's" warranty; (iii) upon a purchaser's receiving a replacement bearing, the difference between receiving an SKF-brand bearing as a replacement as opposed to receiving a different brand of bearing; and (iv) the differences in particular pre-conditions (or total lack of pre-conditions) that each party sets in deciding whether a replacement or refund for a returned bearing is appropriate.

Concerning the first identified difference, the fact that SKF USA's warranty extends down the chain of distribution to end-users is a meaningless distinction. As explained earlier herein, under the Uniform Commercial Code all sellers in a distribution chain guarantee the products that they sell to their respective buyers, either expressly in writing or implicitly by law. Thus, if A sells a bearing to B who in turn sells it to C, and C returns the bearing to B as defective under B's warranty to C, B is then entitled to turn around and return the bearing to A under A's warranty to B. The fact that A's warranty to B says that it also covers B's sales to C merely confirms what is necessarily the case. This is mere wordplay, not a "difference" on which a gray market trademark infringement case can be made.

Regarding the second difference, that SKF USA's warranty is a "manufacturer's warranty" rather than merely the warranty of an entity further down the chain of

distribution, Staff's suggestion (SIB 40; SRB 22) that SKF USA's affiliation with SKF MUs gives it "a better ability to find the problem and replace the bearing than [ ] any of the Respondents" lacks evidentiary foundation. There is nothing in the record to suggest that AB SKF or any of the SKF MUs offers any warranty at all on any of the SKF-brand bearings that are imported into the United States by SKF USA or any of the Respondents. Indeed, if such were the case, then there would be no reason to believe that Respondents would be any less entitled to such a warranty for SKF-brand bearings that they purchase abroad and import into the United States than SKF USA, and warranty would fail altogether as a "material difference" issue to consider in this case. There is also no evidence that AB SKF or any SKF MU plays any role in conducting the "failure analysis" that SKF USA performs on returned bearings.

Concerning the third difference, Staffs suggestion that there is a distinction in the warranties because Respondents cannot always replace a warrantied SKF-brand bearing in kind, but must sometimes offer a credit or another brand, also lacks foundation. The record lends no support to the notion that SKF USA never faces the same problem. In fact, the SKF USA warranty even contemplates as much when it promises to replace *or* refund its customers' money by expressly providing that:

> SKF's sole obligation for any claim of any kind for Product defects under this limited warranty, and the buyer's sole and exclusive remedy for such claim, shall be limited to furnishing without additional charge to the buyer, including

> transportation, *a replacement* for any of the Products found by SKF to be defective contrary to this limited warranty *or, at SKF's sole option, to credit or refund to the buyer the purchase price paid therefore by the buyer.*

CX-1064 at ¶ 7.1 (emphasis added). This warranty does not offer the buyer of an SKF bearing from SKF USA any assurance whatsoever that he or she will receive a replacement bearing (much less an *SKF-brand* bearing) any more than a credit or refund; the choice of which is entirely left to SKF USA.

What is more, the evidence of record shows that in BL's case, a customer who returns a bearing typically prefers to receive a credit rather than a replacement bearing because by the time BL is notified of the problem, the customer has already filled its need by obtaining a replacement bearing. Magray, Tr. 5009:15-5010:14; **FF 202**. Furthermore, the evidence also shows that while BL has never actually had a customer who requested a replacement bearing that BL did not have in stock, if the situation were to arise, BL would find the requested bearing and purchase it for the customer. Magray, Tr. 5009:15-5010:14; **FF 203**.

With regard to the fourth difference, SKF USA's "failure analysis," like BL's "RGA" analysis and McGuire's "verification," are all pre-conditions to receiving a refund or replacement bearing. Although it may be true that each procedure differs somewhat from the other procedures, there is no evidence in the record showing that the sophistication or complexity of any one procedure is different from any

other. The only substantive difference between the pre-condition of SKF USA and those of BL and McGuire is that SKF USA charges $400 for its failure analysis whereas the others charge nothing. Together, these pre-conditions differ substantively from the practices of Bohls and CST, who set no pre-conditions to providing a refund or replacement for a returned SKF-brand bearing.

The mere fact that these differences in pre-conditions (or lack of pre-conditions) exist, however, is not enough to prove gray market trademark infringement. As the Federal Circuit stated in *Gamut Trading*, the "material differences" standard requires a "showing that consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product, *for such differences would suffice to erode the goodwill of the domestic source.*" *Gamut Trading*, *supra*, 200 F.3d at 779 (emphasis added). The Federal Circuit also stated in that case that "[d]ifferences . . . have been deemed material, on the criteria of likelihood of consumer confusion *and concerns for the effect of failed consumer expectations on the trademark holder's reputation and goodwill.*" *Gamut Trading*, *supra*, 200 F.3d at 781 (emphasis added). In other words, in order to determine whether the foregoing differences are "material" ones, "the effect of failed consumer expectations on the trademark holder's reputation and goodwill" resulting from these differences must be taken into account.

Although the different pre-conditions (or lack of pre-conditions) that the parties attach to their express or implied warranties represent palpable differences in warranty policy

among them, there is no evidence in the record to show whether these differences positively or negatively affect "consumer expectations" of SKF USA's "reputation and goodwill." There is a dearth of evidence showing whether Respondents' policies, compared to SKF USA's "failure analysis" policy, erodes, enhances, or has a neutral effect on the goodwill of SKF USA's trademarks. On the one hand, SKF USA's "failure analysis" policy could be viewed positively by the purchaser as providing useful information about his or her own practice or equipment that needs to be corrected by some way other than replacing the bearing, and therefore could enhance SKF USA's goodwill and reputation over Respondents' practices, as SKF USA argues. On the other hand, SKF USA's policy could be viewed negatively by a purchaser because SKF USA forces the purchaser to pay a $[ ] fee up front for the privilege of receiving a refund or exchange, and to gamble on the result of the "failure analysis" to obtain that refund or exchange as well as a return of the $[ ] fee, which may diminish SKF USA's goodwill and reputation and enhance Respondents' by comparison. Although SKF USA has presented evidence to show that *SKF USA* believes that this "service" is valuable to its customers (*see* Scheib, Tr. 689:17-690:3, 713:17-714:9), there is simply nothing in the record to show which way a *customer's* perceptions lie in this regard.

Determining how the alleged differences in warranties affect purchasers' perceptions of SKF-brand products is particularly important in assessing the materiality of that difference in this case because the relevant purchasers here are not unsophisticated buyers, despite the fact that the products at issue are generally, with rare exception, not

particularly expensive and the purchasing process itself is not extensive but instead fairly mundane. As demonstrated by the bearing purchasers who testified at the hearing in support of SKF USA's contentions on the issue of actual confusion (*see* Section I.B.12 *infra*), the relevant purchasers are end-users of bearings in industrial and automotive applications who are intimately familiar with the bearing's application and have considerable experience in purchasing bearings in the marketplace. This sophistication is necessitated by the fact that the bearings here at issue are not end products themselves, but are, instead, integral to the smooth functioning of equipment that is expensive and critical to the productive capacity of their owners. Additionally, bearings tend to wear out faster than the equipment in which they are a part. As a result and having observed the testimony of the various end users, the undersigned finds that the typical purchaser has a rather profound level of experience in purchasing the goods at issue.

Therefore, in assessing the likelihood of confusion for trademark infringement purposes, the test is not "whether confusion is probable among customers who are not knowledgeable." *Estee Lauder, Inc. v. The Gap, Inc.*, 108 F.3d 1503, 1511 (2d Cir. 1997). Rather, "the correct test is whether a consumer who is somewhat familiar with the plaintiff's mark would likely be confused when presented with defendant's mark alone." *Clinique Laboratories, Inc. v. Dep Corp.*, 945 F.Supp. 547, 552 (S.D.N.Y. 1996). In other words, the level of a typical customer's sophistication in differentiating among products is a factor to consider in deciding whether the identified differences are "material" enough to confuse that customer.

Appendix C

In *Nestle*, the Second Circuit noted:

> [W]hen dealing with the importation of gray goods, a reviewing court must necessarily be concerned with subtle differences, for it is by subtle differences that consumers are most easily confused. For that reason, the threshold of materiality must be kept low enough to take account of potentially confusing differences — differences that are not blatant enough to make it obvious to the average consumer that the origin of the product differs from his or her expectations.

Nestle, *supra*, 982 F.2d at 641. Here, subtle differences are also at stake, but unlike *Nestle*, the purchasers in question are relatively knowledgeable, and therefore the "threshold of materiality" need not be as "low" as *Nestle* suggests. Instead, it can be higher and can preclude a finding of infringement in such instances, because such purchasers are better able to pick up on subtle differences that distinguish authorized from unauthorized products.[23]

---

23. In trademark infringement cases from the Second Circuit that do not involve gray market goods, the likelihood of confusion test for infringement involves an evaluation of several factors, one of which is the level of sophistication of buyers. *See Mushroom Makers, Inc. v. R.G. Barry Corp.*, 580 F.2d 44, 47 (2d Cir. 1978), *cert. denied*, 439 U.S. 1116 (1979). However, these cases have also held that "where the products are identical and the marks are identical, the sophistication of buyers cannot be relied on to prevent confusion." *Banff, Ltd. v. Federated Department Stores, Inc.*, 841 F.2d 486, 492 (2d Cir. 1988). The rationale for this statement is that even though a highly sophisticated buyer would be expected to make

(Cont'd)

Appendix C

The somewhat unclear comparison in *Nestle*, also used in *Gamut Trading*, of the "materiality" of differences to a "low threshold" cannot be interpreted to imply that a trademark holder can simply concoct a list of any differences between authorized and unauthorized products that it likes and make out a case for infringement. That approach, akin to throwing spaghetti on a wall to see which strands will stick, is not a good practice for courts to encourage in gray market trademark infringement litigation. More appropriately, "low threshold of materiality" in the context of *Nestle* and *Gamut Trading* should be viewed as meaning that the difference between authorized and unauthorized

---

(Cont'd)

"more than a casual inspection" of a high-quality product before buying it, such inspection of an infringing good would be of doubtful value because the products from each of two different sources both have the same trademark, and since both are quality products under strongly similar marks, the sophistication of the buyer does not mitigate the likelihood of confusion. *See id.*; *also see McGregor-Doninger Inc. v. Drizzle Inc.*, 599 F.2d 1126, 1137-38 (2d Cir. 1979). Although this rationale would appear to be applicable in the gray market context at first blush, there are important distinctions that render it inapposite in this context. First, products in gray market cases come from the *same* source, not two different sources, so the infringement issue is not likelihood of confusion as to source as in the Second Circuit cases. Second, the kind of customer "sophistication" being discussed in the gray market context of this case has to do with the ability of a customer to discern not only physical differences between products, but also *non*-physical ones, such as differences in quality control, country of origin, warranties, engineering support and the like. The level of sophistication needed here is more than just an ability to inspect the product itself. Thus, the foregoing Second Circuit cases are not considered applicable in this case.

products is a subtle one that the relevant consumer is not likely to pick up, thereby resulting in a likelihood of confusion and justifying a finding of trademark infringement under the Lanham Act. The *less* sophisticated the relevant consumer, the *less* subtle (*i.e.*, the "lower" the threshold) the difference has to be in order to cause confusion. Thus, in most instances where customers are not particularly discerning, the "threshold" that a trademark holder must cross in order to show that a difference is "material," leading to a finding of infringement, is "low." By contrast, the instant case is one in which consumers are sophisticated buyers. Thus, to show infringement here, the alleged difference between authorized and unauthorized products has to be *more* subtle, which "*raises*" the threshold of materiality that the trademark holder must cross to prove infringement, all at the same time traversing between non-infringing identicalness on the one hand and non-infringing blatancy on the other, as explained earlier herein.

To give an example in the context of this case, even a relatively small difference in price between SKF USA's authorized bearings and the unauthorized bearings of Respondents is likely to be a dead giveaway to knowledgeable purchasers in the replacement bearing market. To them, a small price differential suggests that "the tie between a manufacturer's protected mark and its associated bundle of traits" has been "severed" from Respondents' SKF-brand bearings, and that as a result several "sticks" in the "bundle of traits" that Respondents are offering on the cheap have been left out, which in turn explains the price differential. *See Nestle*, *supra*, 982 F.2d at 641. By the same token, subtle differences in warranties are not likely to confuse a

sophisticated purchaser into thinking that an unauthorized SKF-brand bearing is in fact an authorized one; to that person, these are blatant differences, and blatant differences cause no confusion. *See id.* ("using the same mark on two blatantly different products normally does not offend the Lanham Trade-Mark Act, for such use is unlikely to cause confusion and is, therefore, unlikely to imperil the goodwill of either product.").

There is nothing in the case law of gray market trademark infringement that the parties have cited which leads to the conclusion that the differences in warranties noted here are "material" such that a finding of infringement is warranted. In *Osawa & Co. v. B & H Photo*, 589 F.Supp. 1163 (S.D.N.Y. 1984) ("*Osawa*"), the expensive and technically complex Mamiya camera equipment at issue, designed for use by professional photographers and advanced amateurs, came with a warranty from the trademark holder, also the exclusive worldwide distributor of the product, that offered free warranty repairs performed by its employees or by authorized service representatives. *See Osawa*, *supra*, 589 F.Supp. at 1166. The defendants, sellers of gray market Mamiya cameras, offered no warranty of their own, but the trademark holder nevertheless provided warranty service on gray market equipment sold by the defendants as well as its own, "not out of stupidity or neglect but because plaintiffs management perceives that dissatisfied purchasers of Mamiya cameras will damage the reputation of the Mamiya mark, which is the most significant asset on which plaintiffs business is founded." *See id.*, 589 F.Supp. at 1167. The court found infringement in view of the material difference between the warranty offered by the plaintiff and the lack of warranty offered by

the defendants; it also rejected the defendants' counteroffer to provide their own warranty service on their own merchandise, because that would "increase, rather than solve, the problems of trademark confusion," and because "[p]laintiff would have no assurance that B&H's warranty repairs would be properly performed or that the obligation would be graciously accepted." *See id.*, 589 F.Supp. at 1168-69. *Osawa* is different from this case because the court found specific evidence that customers consider the trademark holder's offer of free repairs to be a material difference that affected their purchasing decisions.

Here, unlike *Osawa*, there is no extra service under SKF USA's warranty that it performs for purchasers of authorized SKF-brand bearings and also must perform for purchasers of unauthorized SKF-brand bearings in order to preserve the reputation of its trademarks. SKF USA only replaces defective SKF bearings, and only its *own* SKF bearings. Although SKF USA considers its "failure analysis" to be an extra service for purchasers, it charges for that service (albeit not its full cost) and accordingly, the full cost of the analysis is not embedded in the cost of the bearing sold at the point of sale. There is no evidence that customers view SKF's "failure analysis" to be an enhancement to purchasing SKF-brand bearings. Also, unlike *Osawa*, there is no danger that Respondents, in fulfillment of their various warranty obligations, will injure the goodwill of SKF USA by performing bad repairs; all Respondents do is replace and SKF bearing with an SKF bearing, cash, or an equivalent bearing of another manufacturer.[24]

24. In the bearings industry, there is a "Consolidated bearings catalogue" that allows users to determine interchanges among the bearings of different manufacturers. *See* Magray, Tr. 4883:12-4884:4; RPX-3042; **FF 204**.

Appendix C

The other cases cited by the parties do not compel any different result. In *Fender Musical Instruments Corp. v. Unlimited Music Center Inc.*, 35 U.S.P.Q.2d 1053 (D. Conn. 1995) ("*Fender*"), a gray market importer of the trademark holder's imported Japanese electric guitars represented untruthfully to its customers that the trademark holder offered its warranty to the gray market guitars as well as to authorized guitars. *See Fender, supra*, 35 U.S.P.Q.2d at 1056. Infringement was found on the basis of this factor and other material differences between the authorized and unauthorized products. *See id.*, 35 U.S.P.Q.2d at 1057. Here, Respondents do not untruthfully represent to their customers that SKF USA warrants the bearings that Respondents sell; instead, they each offer their own warranties. There is no evidence that Respondents engage in deliberate misrepresentation as a way to trick even sophisticated customers into buying something that they would otherwise avoid buying.

By contrast, in *Montblanc-Simplo GmbH v. Staples, Inc.*, 172 F. Supp.2d 231, *vacated on other grounds*, 175 F.Supp.2d 95 (D.Mass. 2001) ("*Montblanc*"), the manufacturer and trademark holder of high quality and highly priced pens argued that there was a material difference between its authorized pens, which came with a service manual and two-year warranty certificate, and the unauthorized pens of the defendant retailer who removed the manual and certificate and replaced it with its own allegedly "inferior" warranty. Despite these alleged differences, however, the court rejected the trademark holder's infringement claim on the ground that there was "no evidence demonstrating substantive inferiority in the Staples warranty." *See Montblanc, supra*, 172 F.Supp.2d at 240 and 241 n.10. Here, as in *Montblanc*, there

is no evidence to substantiate SKF USA's claim that Respondents' warranties, both express and implied, diminish the reputation of the SKF USA trademarks and are therefore "material" differences.

To conclude, since SKF USA bears the burden of proving that the differences in warranty policies that it has identified are "material," the lack of evidence as to whether these differences enhance or diminish the SKF marks in the eyes of the relevant purchaser precludes a finding of gray market trademark infringement on the part of Respondents. Moreover, since there is no evidence to show that these differences are "material" by being too subtle even for the knowledgeable purchaser in the replacement bearing market to detect, gray market trademark infringement has not been shown.[25]

---

25. In *Nestle*, the Second Circuit adopted the approach of creating a presumption of consumer confusion if the trademark holder shows "the existence of any difference between the registrant's product and the allegedly infringing gray good that consumers would likely consider to be relevant when purchasing a product." *Nestle, supra*, 982 F.2d at 641. The presumption is rebuttable, the Second Circuit held, if the defendant shows "by preponderant evidence that the differences are not of the kind that consumers, on average, would likely consider in purchasing the product." *Id.* Using this approach might lead to a different result than is reached here, because SKF USA's mere identification of differences between its own warranty policies and those of Respondents could be enough under *Nestle* to establish the presumption of consumer confusion, whereas the failure of Respondents to rebut it by a contrary showing of the non-materiality of the differences to consumers would render the presumption conclusive. However, it is the Federal Circuit, not the Second Circuit, that the Commission looks to for controlling precedent, and the Federal Circuit's decision in *Gamut Trading* did not adopt this "rebuttable presumption" approach. *Compare Gamut Trading, supra*, 200 F.3d at 781, *with Nestle, supra*, 982 F.2d at 641.

Appendix C

Issue I.B.7: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from the bearings imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in product recalls?

Complainant's Position

According to SKF USA, a material difference between authorized and unauthorized SKF bearings is that in the event of a product recall, purchasers of gray market SKF bearings will not be notified by SKF USA's recall procedure. CIB 147. As part of its overall quality system, SKF USA has in place written procedures for handling product recalls that are governed by the SKF USA quality manual, known as the "Qd," as well as by the higher-order quality manuals (the "Qb" and "Qc" manuals) that apply to all SKF Group companies. CIB 148. Once SKF USA is notified by an SKF MU of a suspect product, SKF USA puts together a team from legal, applications engineering, sales, marketing and customer service to remedy the problem. *Id.* According to SKF USA, customers including OEMs and authorized distributors are notified of a product recall via telephone, fax, or e-mail. *Id.* SKF USA salespeople visit the affected customers, when possible, to assist in product return during a product recall. CIB 149. SKF USA contends that while SKF recalls are not frequent, it had to recall [ ] pieces during the recall of an [ ] bearing, and also recalled part [ ], which was mis-marked as a larger bearing. CIB 150. Thus, SKF USA argues, it has had several

product recalls, some of which averted catastrophic failures of machinery. CRB 108. SKF USA argues that if an authorized distributor knows the part number and who the product was sold to, the distributor is able to cast out a net for a broad recall. CIB 151. SKF USA maintains that it is able to trace bearings it has sold to the point of delivery to its customer, but points out that once the bearing has been delivered to the customer, SKF USA cannot trace the bearing further without the customer's assistance. CRB 109-10.

By contrast, SKF USA contends, [ ] have no policy, procedure, or steps to monitor recalls of SKF bearings or to provide product recall notification to customers who have purchased SKF bearings from them. CIB 152; CRB 108. [ ] is not even aware of any recalls of SKF bearings, SKF USA argues. *Id.* SKF USA further notes that settling respondent [ ] does not have a written procedure on how to go about notifying customers as to bearing recalls. CIB 153. While foreign SKF companies must comply with Group product recall procedures, SKF USA points out, [

] Likewise, SKF USA notes that the vast majority of BL's foreign sources are not authorized distributors either. CRB 113. Therefore, according to SKF USA, there is no reliable method for Respondents to become aware of any product recall by SKF USA. CRB 114.

SKF USA contends that with regard to its Chicago Rawhide division, the quality manuals of the SKF Group require that "customers" who may have received suspect product must be identified. CIB 22. The SKF USA sales unit is a "customer" of the SKF Group factories, and CR is, in

turn, a "customer" of SKF USA. *Id.* As such, if SKF USA is contacted by any domestic or non-domestic SKF factory regarding a product recall, CR will be contacted as well. CIB 23; CRB 116-17.

Respondents' Position

According to Respondents, SKF USA's alleged recall procedures do not create a material difference because (a) SKF USA and its authorized distributors do not implement and, in many cases, are unable to follow SKF USA's alleged product recall procedures; (b) SKF USA and its distributors sell to OEMs and government customers a large number of SKF bearings that SKF USA knows are destined for the surplus bearing market and, accordingly, will be untraceable; (c) Respondents' customers benefit from the recall procedures followed by the SKF Group; and (d) to the extent that Respondents' product recall procedures may differ from SKF USA's, customers' purchasing decisions are not affected. RIB 142. Respondents further contend that SKF USA is being disingenuous by suggesting that differences in product recall procedures should be deemed material because they jeopardize the safety of bearing consumers when SKF USA could easily alleviate that concern by taking simple steps to provide public notification of recalls. *Id.*

According to Respondents, SKF USA itself has not implemented its alleged recall procedures, RIB 144; RRB 85, and SKF USA's recall procedures extend only to its authorized distributors, not to end-users in the aftermarket. RRB 85. Further, Respondents contend that there are no written procedures promulgated by SKF USA for notifying

end-users of a recall. RRB 86. Once SKF USA sells a bearing, Respondent maintains, SKF USA has no ability to trace the bearing. RIB 144. SKF USA has to rely on its customers to notify end-users of a recall, Respondents point out, RIB 144; RRB 86, and as a result, SKF USA is able, at best, only to trace recalled bearings to the entity that purchased them directly from SKF USA — in the vast majority of cases, an SKF USA authorized distributor. RIB 144. Accordingly, SKF USA's alleged product recall procedures cannot be effected unless SKF USA's authorized distributors are able to convey notice of product recalls to end-users. *Id.* SKF USA, however, does not require that its distributors implement recall procedures. RIB 144; RRB 86. Likewise, according to Respondents, SKF USA's three largest national customers, Kaman, AIT and Motion do not follow any recall procedures, RIB 145, and SKF USA's own Chicago Rawhide division does not even track which of its customers purchase SKF bearings. RRB 87.

Respondents also contend that SKF USA authorizes sales of SKF bearings to other sources, such as OEMs and government purchasers, who commonly — with SKF USA's knowledge — sell those bearings into the surplus market, where they may be bought by any of a very wide variety of distributors and end-users, and where they become effectively untraceable. RIB 146. Additionally, Respondents note that when foreign-made SKF products are the subject of recalls, foreign authorized distributors who have purchased the recalled product are given notice of the recall from the SKF's foreign MUs. These foreign authorized distributors are then able to notify their customers, including Respondents. RIB 146-47. When there is a recall of SKF bearings, Respondents

contend that they are as capable as SKF USA or its authorized distributors of protecting consumers. RIB 147. Since SKF USA's own recall policy does not specify a required method of conveying notice to an end-user, RIB 147, Respondents maintain that there is no standard SKF USA can claim that Respondents have not met. *Id.*

Finally, Respondents note that McGuire has a written quality control procedure that is applicable to bearing recalls, RIB 148, and that the bearing purchasers in the industry do not consider the product recall issue significant to their purchasing decisions because they understand that bearing recalls are extremely rare. *Id.*

Commission Investigative Staff's Position

Staff is of the view that differences in the knowledge of and the availability of a system for product recalls is a material difference between the bearings offered for sale by SKF USA and Respondents. SIB 42. According to Staff, SKF USA has an established system for recalling defective products. *Id.* Respondents do not have such systems, Staff contends, but must instead rely on the industry "grapevine" and contacts with authorized distributors to let Respondents know about any recalls. *Id.* The key issue, Staff argues, is not whether recalls are common or likely in the bearing industry, but instead, is whether SKF USA has the ability to protect its goodwill and good name by recalling all of the defective products that bear its trademark. Because SKF USA cannot recall gray market products in the event of a problem, there is a material difference in the products. SIB 42; SRB 25.

Appendix C

Under SKF USA's system, Staff contends, SKF USA is directly notified of recalls by AB SKF MUs and is part of an established system for conducting recalls which includes authorized distributors. SIB 43. By contrast, Staff maintains, Respondents do not have established recall procedures and would not even necessarily be notified of a recall. SIB 43; SRB 26. Thus, according to Staff, there are significant differences between SKF USA's authorized products and Respondents' unauthorized products with respect to the recall of those products. SIB 43.

Staff also points out that precedent establishes that differences in the availability of product recalls are material differences. SIB 43; SRB 27-28. According to Staff, it is not necessary that customers consider the availability of product recall when purchasing a bearing, but simply whether if there is a problem, customers would find it important to be notified of the recall. SIB 43. In this sense, it is not the frequency of recalls that constitutes a material difference, Staff maintains, but instead it is the inability of the manufacturer to control the quality of goods via a recall that constitutes such a difference. SIB 43; SRB 27-28, *citing Davidoff & Cie SA v. PLD Int'l Corp.*, 56 U.S.P.Q.2d 1753, 1757 (S.D. Fla. 2000); *Montblanc, supra*, 172 F. Supp.2d at 240-41; *John Paul Mitchell Sys. v. Pete-N-Larry's, Inc.*, 862 F. Supp. 1020, 1026 (W.D.N.Y. 1994).

Discussion, Analysis, and Conclusion

SKF USA contends that it has a recall procedure in place that is based on its written quality manual, the "Qd," and the higher-level quality manuals of the SKF Group, the "Qb"

and "Qc." Wilson, Tr. 1982:4-10; Stevens, Tr. 620:20-25; CX-2657C; **FF 205**. Potential recalls can be identified either in the field or at a domestic or non-domestic factory, whereupon the sales unit of SKF USA is notified so that customers who have received suspect product can be contacted as required by the quality manuals. Wilson, Tr. 1981:18-25, 1982:11-24; **FF 206.**

SKF USA claims that when it is notified of a suspect product, it puts together a team from legal, applications engineering, sales, marketing, and customer service, to deal with the problem. Wilson, Tr. 1983:4-8; **FF 207**. Shipments are blocked at the warehouse, a risk assessment of the defect and type of failure that may occur is conducted, affected customers are identified (i.e., authorized distributors and OEMs), and they are contacted by fax, telephone or e-mail. Wilson, Tr. 1983:4-19; **FF 208.** SKF USA's industry specialists are also enlisted to help with sectors that may be particularly impacted. Wilson, Tr. 1985:3-9; **FF 209.**

SKF USA contends that as part of the recall process, it notifies the SKF USA sales team of the product recall, and that these sales persons receive information regarding customers who might have received suspect product, as well as information on the defect itself. Wilson, Tr. 1986:14-1987:2; **FF 210**. They are told the country of manufacture, the box date codes and the bearing date codes for the affected products, and they are informed as to how SKF USA will notify the affected customers. Wilson, Tr. 1987:3-12; **FF 211**.

Under the procedure, the SKF USA salespeople are asked to visit affected customers, if possible, to assist in the return

of the suspect product, to instruct the customer on what to do if the product has been mounted in applications, and to provide contacts for the sales, legal, factory and technical questions. Wilson, Tr. 1988:10-19; **FF 212**. SKF USA also sends letters to distributors and OEM customers regarding the product recalls. Wilson, Tr. 1989:16-1990: 10; **FF 213**. Date codes are used to identify affected customers. Wilson, Tr.1994:6-11; **FF 214.**

During the tenure as SKF USA's director of total quality of Patricia Wilson, who testified at the trial about the recall procedure, SKF USA has conducted recalls of [ ] products between 1998 and 2001. Wilson, Tr.1995 :24-1996:17;CX-2582C; **FF 215**. Wilson discussed three recalls in particular during her testimony. One recall, in 2001, involved [ ] used in paper mills and steel mills numbered [ ] and [ ] that had [ ] Wilson, Tr. 1984:20-1985:9; CX-2654C; **FF 216**. In this instance, the steel supplier, [ ] was identified as the source of the problem and was asked to pay for the root cause analysis and corrective action. *See* Wilson, Tr. 1985:10-14; CX-2654C at SKF 091830; **FF 217**. The defect was found to pose a "risk of catastrophic failure," and a recall of the bearing was conducted by contacting customers. *See* CX-2654C at SKF 091834; **FF 218**. Another problem arose in 2001 involving a bearing numbered [ ] A that was manufactured at an SKF MU in [ ] sold to a single customer, [ ] and was supposed to come with seals on both sides of the bearing but was reported by the customer to have one seal missing. *See* Wilson, Tr. 1990:16-1991:24; CX-2655C; **FF 219**. [ ] pieces were considered suspect, and after inspecting approximately

[ ] pieces at the warehouse, SKF USA found [ ] bearings to be defective. CX-2655C at SKF 091809; **FF 220**. Since the only customer of the product found the problem, there was no need to notify the customer, and the remaining stock of defective bearings were blocked at the warehouse. *See* Wilson, Tr. 1991:9-20; CX-2655C at SKF 091809; **FF 221**. Another problem, in 2000, was found in a bearing in a box numbered [ ] that was smaller than the size marked on the box. Wilson, Tr. 1992:8-17; CX-2656C; **FF 222**. Since the bearing could not be mounted in an application, the risk of it being used by customers was very low, and SKF USA asked its salespeople to contact affected customers rather than send a letter. Wilson, Tr. 1992:8-1993:2; CX-2656C at SKF 091824; **FF 223**.

In each instance, the product codes and date codes on the defective bearings have proved to be important items of identifying information in effectuating the recall. *See* Wilson, Tr. 1994:6-11; CX-2654C at SKF 091832-33; CX-2655C at SKF 091811; CX-2656C at SKF 091822; **FF 224**. SKF USA notifies its OEM and distributor customers, giving them as much information as it can, and returns and credits are coordinated by SKF USA's customer service department. Wilson, Tr. 1994:122-1995:9; **FF 225**.

SKF USA does not post recalls on its website nor publish them in trade journals. *See* Wilson, Tr. 2036:7-24; **FF 226**. The reason given by Wilson at trial was that SKF USA "would like to target our recalls to get the product back as quickly as possible" by contacting the customer directly, and because it "would have to hit many trade magazines to get all the trade customers" that would be in possession of the defective

product. Wilson, Tr. 2036:7-24; **FF 227**. Instead, SKF USA's salespeople contact its authorized distributors and ask that they contact their end-user customers. *See* Wilson, Tr. 2036:25-2037:6; **FF 228**. There is no credible evidence in the record, however, that any of SKF USA's authorized distributors have a corresponding written or standardized recall procedure in place to deal with such recalls. *See* Circo, Tr. 2335:24-2336:21 (Precision Industries); **FF 229**.[26] As for SKF USA's Chicago Rawhide division, SKF USA considers CR to be a "customer" under its recall procedures and notifies CR as well of any recall. Wilson, Tr. 2039:2-12; **FF 231**. However, there is no evidence in the record that CR has any written or standardized recall procedure of its own.

None of the Respondents have any standardized or written procedure that they follow for conducting recalls of SKF bearings from their customers. Magray, Tr. 3064:14-3065:5 (BL); Bohls, Tr. 3495:22-25 (Bohls); Townsend, Tr. 2412:4-10 (CST); Peterson, Tr. 5102:2-5104:20 (McGuire); **FF 232**.

As with many of SKF USA's purported "material differences" that have been analyzed thus far, its alleged

---

26. SKF USA represents in its initial post-hearing brief that one authorized distributor, Precision Industries, "has an established procedure for product recalls." CIB 152, *citing* Circo, Tr. 2335-2336. However, the trial testimony of Dennis Circo, Precision's Chairman and CEO, suggests far less than that. When questioned as to whether Precision had an established recall procedure, Circo testified that "we would be able to do that, as I said, it has happened one time that I can think of in 34 years on bearings," but he also stated that "[i]t wouldn't be easy." Circo, Tr. 2335:24-2336:21; FF 230.

"material difference" in recall procedures fails at the critical point in the distribution chain — the authorized distributor. There is no evidence that any authorized distributor follows any standardized or written recall procedure of its own, and it is SKF USA's authorized distributor, not SKF USA, that operates at the point of sale with the relevant purchaser in the industrial aftermarket. Thus, when it comes to recalls, the relevant purchaser in the industrial aftermarket faces the same situation irrespective of whether an SKF-brand bearing is purchased from an authorized distributor or an unauthorized distributor — the purchaser does not hear about a recall unless the distributor informs the customer about it.

There is no record evidence that assures the undersigned that an authorized distributor will inform its customer about a recall with any greater likelihood than an unauthorized distributor.[27] There is no proof that SKF USA authorized distributors have in the past informed their customers of recalls of SKF bearings more so than have unauthorized distributors. Nor was there any record evidence to conclude that they would be more likely to do so. Indeed, despite evidence introduced by SKF USA indicating that there have been [ ] recalls of SKF bearings between 1998 and 2001, the chairman and CEO of Precision Industries, one of SKF USA's authorized distributors, testified that he knew of only one.

---

27. As with the case of SKF USA's packaging and labeling standards, OEM purchasers who purchase directly from SKF USA are in a different position from those who purchase from Respondents because they hear directly from SKF USA about recalls, whereas OEMs who purchase from Respondents do not. However, SKF USA has offered no evidence and has made no argument to show that OEM purchasers consider this feature to be a "material difference."

Circo, Tr. 2335:24-2336:21; **FF 233**. The manager of the Philadelphia branch of AIT, one of the three major SKF USA authorized distributors, could not remember any SKF recalls during that time period. Callahan, Tr. 4778:12-4779:5; **FF 234**.

The case law does not support the notion advanced by SKF USA and Staff that recall procedures are "material differences" in and of themselves. It is often stated in the cases cited by SKF USA and Staff that the actual occurrence or frequency of recalls is not important in gray market infringement cases, but rather "the right to control the quality" of the trademarked product that is protected by the Lanham Act. *See Davidoff & Cie SA v. PLD International Corp.*, 56 U.S.P.Q.2d 1753, 1757 (S.D. Fla. 2000), *aff'd*, 263 F.3d 1297 (11th Cir. 2001) ("*Davidoff*"); *John Paul Mitchell Systems v. Pete-N-Larry's Inc.*, 862 F.Supp. 1020, 1026 (W.D.N.Y. 1994) ("*Mitchell*"); *Montblanc*, *supra*, 172 F.Supp.2d at 239-40. However, in every one of these cases, the material difference at issue was not the recall procedure itself that the trademark holder followed, but rather the infringer's obliteration of the product code on the gray good that potentially interfered with the trademark holders' ability to conduct recalls. Thus, in *Montblanc*, *supra*, the fact that the infringing retailer obliterated serial numbers from the trademark holder's pens meant that the products could not be recalled or identified if lost or stolen. Similarly, in *Mitchell*, *supra*, the infringer's obliteration of batch codes from the containers of the gray market hair care products destroyed "the only means for the plaintiffs to identify and recall defective or outdated products." The same thing occurred in *Davidoff*, *supra*, where the batch codes on bottles of the trademark holder's cosmetic products were obliterated by the gray marketer, potentially frustrating product recalls.

Appendix C

There is no suggestion in the record of this investigation that Respondents systematically obliterate product or date codes on any of the SKF-brand bearings that they sell. As a result, these cases do not stand for the proposition advanced by SKF USA and Staff that an internal procedure followed by SKF USA's quality control staff in conducting recalls is any kind of difference, much less a "material difference," that the relevant purchaser in the industrial aftermarket would be likely to consider significant when purchasing the product.

It is worthy of note, moreover, that the notion that buyers from authorized distributors are somehow better off than buyers from unauthorized distributors because the former are notified by SKF USA directly about recalls whereas the latter are not is a bizarre difference on which to argue that Respondents' practices "diminish" the SKF trademarks. SKF's conscious decision to tell some people about recalls but not others is entirely within SKF's purview and control and not at all within the control of Respondents. Since SKF chooses not to publicize recall notices as widely as possible, admittedly avoiding the internet and trade publications in favor of direct salesperson-to-customer contacts, it is possible that customers may not find out about the recall at all and may thus fall victim to bearing failures. As such occurrences, in SKF USA's own words, can have "catastrophic" results in some instances, it is a problem of SKF's own making.[28]

---

28. It would be significant indeed, in a products liability suit against SKF for an injury caused by a defective bearing, for a jury to learn that SKF, as a matter of company policy, refuses for trademark reasons to tell some distributors about its own recall notices. Such would hardly strengthen the goodwill associated with SKF USA's product.

Accordingly, SKF USA's internal recall procedures do not constitute a "material difference" justifying a finding of gray market trademark infringement against Respondents.

Issue I.B.8: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from the bearings imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in marketing materials?

Complainant's Position

SKF USA contends that its advertising and marketing is materially different from Respondents' efforts in this area. CIB 153-67; CRB 117-35. According to SKF USA, its own advertising and marketing are of a high quality intended to promote and reflect well upon the "SKF" marks, whereas Respondents' advertising and marketing (if any) is of an entirely different caliber with a different purpose, "simply do so to sell, not to educate." CIB 153-54. Respondents' advertising materials, SKF USA maintains, is in the form of price lists, not sophisticated product literature, and is often shoddy and misleading. CIB 154.

SKF USA argues that it spends great amounts of money and time promoting its products that display the SKF marks. CIB 156. These efforts include glossy, color fold-out brochures; assistance manuals with detailed instructions; life-size cardboard stand-ups; posters; and interactive CDs. *Id.* SKF USA puts out numerous catalogs, brochures and product

literature designed to inform and educate, SKF USA argues, as well as institutional advertising that promotes the SKF brand. *Id.* SKF USA also engages in corporate sponsorships that also promote the SKF brand, as well as the distribution of promotional items and the co-sponsoring of advertising with its major authorized distributors. *Id.* SKF USA also publishes articles and other items in the trade press and participates in trade shows. CIB 157. SKF USA also has a special vehicle, which can travel to various locations and is designed to educate customers as to bearing maintenance issues. *Id.* SKF USA also promotes the SKF name through signage, posters, banners and the like. *Id.*

By contrast, SKF USA argues, none of the Respondents do anything comparable. CIB 160-67. BL advertises the SKF brand in conjunction with overstock offerings, also called surplus, stock, excess stock, special offerings, or lot offerings, which can involve discounts of 50% or more and which reflect negatively on SKF bearings, because overstock material is generally less desirable product. CIB 160. BL also advertises SKF bearings alongside the bearings of numerous other manufacturers in a manner that, according to SKF USA, implies that SKF bearings are equivalent to those products and may confuse the customer as to the quality of the SKF bearings, including Romanian bearings, Indian bearings, Chinese bearings, Japanese bearings, BL-India bearings, DFK bearings, RIV bearings, Koyo bearings and NSK bearings. CLB 160-61. SKF USA further alleges that BL also advertises SKF bearings at highly suspect discounts, which tends to devalue their true worth. CIB 161. SKF USA claims that BL's advertising also suggests that SKF bearings sold by BL can be obtained with all of the services that come with authorized

SKF bearings at the low prices offered by BL, which is not the case. *Id.*

SKF USA also alleges that BL advertises SKF bearings in a manner that is substandard to the advertising generated by SKF USA, and consists primarily of customer handouts, faxes, and few magazine advertisements. CIB 161-62. Moreover, SKF USA asserts, the part numbers advertised by BL as purportedly representing SKF bearings are BL's nomenclature and thus often are not actual SKF part numbers or appear to be alterations of SKF part numbers. CIB 162. Further, by advertising nearly all SKF bearings in a stock list format, SKF USA contends, BL implies that SKF bearings are commodity products, which is fundamentally different from SKF USA's approach and can lead consumers who expect SKF USA's technically savvy advertising to be confused by BL's product offerings. *Id.* SKF USA also states that the very fact that BL is advertising SKF bearings at all is misleading in that it creates the impression that BL is an authorized distributor of SKF USA. CIB 163. Few BL advertisements clarify that BL is, in fact, *not* an authorized distributor, SKF USA maintains. *Id.* Further, SKF USA argues, BL advertises its bearings, including SKF bearings, as being "factory fresh," implying that BL purchases only recently produced SKF USA bearings that are obtained *directly* from the bearing factory, which is not true. *Id.* [

] *Id.*

As for CST, SKF USA contends that its current advertising includes faxing information to distributors indicating that CST has SKF bearings available for sale,

including hard-to-find and obsolete sizes. CIB 164. According to SKF USA, CST's flyers, price lists, and other advertisements have offered discounts on SKF products of up to 60% off SKF's industrial distributor price ("IDP"). *Id.* According to SKFUSA, CST claims that it includes, in all of its advertising, a statement that SKF is a registered trademark of SKF USA Inc., and that CST is not an authorized distributor. *Id.* This "disclaimer," SKF USA argues, is slipshod and misleading, wholly inadequate and has never been approved by SKF USA. *Id., citing Univ. of Georgia v. Laite*, 756 F.2d 1535, 1547 (11th Cir. 1985) (placement of disclaimer on can of novelty beer stating that beer was not associated with the plaintiffs mark was insufficient to remedy confusion). SKF USA further argues that CST also maintains a website offering over 500 different SKF bearings that it does not keep current. CIB 164-65.

Turning next to McGuire, SKF USA contends that McGuire's advertising and marketing efforts are both misinformed and of low quality compared to the advertising generated by SKF USA. CIB 165. McGuire, unlike SKF USA, markets SKF bearings through mass mailings, mass e-mails over the internet, and sales calls by its sales force. *Id.* However, SKF USA argues, since McGuire does not have access to the substantial amount of specific SKF literature and promotional products, it is significantly hampered in its efforts to adequately promote the SKF bearings that it sells. *Id.* McGuire also markets SKF bearings alongside the bearings of numerous other manufacturers both in print and in trade show advertisements in a manner that incorrectly implies that those bearings are equivalent to SKF bearings. *Id.* Further, in McGuire's mass e-mail advertisements,

Appendix C

McGuire markets SKF bearings at deep discounts which tend to devalue their true worth. CIB 166. Further, SKF USA argues, the part numbers advertised by McGuire as purportedly representing SKF bearings include nomenclature that SKF does not even use, such as "ZZ," which is likely to cause confusion and potentially result in the customer receiving an incorrect bearing. CIB 166. Further, SKF USA argues, although McGuire advertises the sale of specific part numbers directly to the electric motor customers through its Triple Phase operation, McGuire does not advertise a single JEM bearing and instead advertises numerous non-JEM variants. *Id.* This sort of advertising, according to SKF USA, is likely to confuse the public as to what bearings SKF USA recommends for the U.S. electric motor industry. *Id.*

SKF USA also contends that by advertising SKF bearings in a price list format, McGuire advertises them in a manner implying that SKF bearings are commodity products, thereby misleading the consumer into incorrectly assuming that technical assistance in the purchase of SKF bearings is not necessary. CIB 166. Also, SKF USA contends, the very fact that McGuire is advertising SKF bearings at all is misleading in that it creates the impression that McGuire is an authorized distributor of SKF USA, and McGuire makes no attempt in any of its advertising to inform customers that it is not so authorized. CIB 167.

Finally, in connection with Bohls, SKF USA avers that Bohls makes no claim that it does any advertising of SKF bearings. CIB 167. Thus, SKF USA maintains, Bohls' customers simply do not receive any of the benefits that SKF USA's customers can receive by review of product literature and the like, thereby resulting in a material difference. *Id.*

Appendix C

SKF USA rejects Respondents' assertion that their marketing and advertising efforts should be compared to those of SKF USA's authorized distributors rather than SKF USA itself. CRB 119-24. SKF USA maintains that its authorized distributors are all independent entities that happen to do business with, but are not owned by, SKF USA. CRB 121. They are therefore similar to Respondents' distributor customers, and Respondents should therefore be compared to SKF USA rather than to the authorized distributors, SKF USA contends. *Id.* Thus, SKF USA argues, it is preposterous for Respondents to state that authorized distributors are is just as likely as Respondents to advertise in modes unacceptable to SKF USA, because SKF USA does everything it can to ensure that the authorized distributors utilize the SKF mark properly, including having guidelines in its Industrial Distributor Agreement. CRB 122. SKF USA points out that even its earlier forms required authorized distributors to meet certain advertising standards and obtain SKF USA's approval for use of promotional materials. *Id.*

SKF USA also argues that it works with authorized distributors on advertising that the latter puts out using the SKF mark and makes a whole host of marketing and educational materials created by SKF USA for downstream distribution available to the distributor. CRB 123. Thus, authorized distributors are much more likely to send out materials that have not only been sanctioned by SKF USA, but also created by SKF USA. CRB 123-24.

SKF USA further rejects Staff's argument that there is no survey to demonstrate how consumers view SKF products based on Respondents' advertising, contending that the case

law does not require a survey to show likelihood of confusion. CRB 124, *citing Giant Brands, Inc. v. Eagle, Inc.*, 228 F.Supp.2d 646, 655 (D. Md. 2002) (Stating that "survey evidence is not necessarily the best evidence of actual confusion and surveys are not required to prove likelihood of confusion"); *PepsiCo, Inc. v. Longmont Packing, Inc.*, No. 99 D 1077, 1999 U.S.Dist. LEXIS 12811, at *8 (D. Colo. July 30, 1999) (listing general marketing activities as a material difference without mention of a survey); *PepsiCo, Inc. v. Reyes*, 70 F.Supp.2d 1057, 1058-59 (C.D. Cal. 1999) (same).

SKF USA points to the trial testimony of the Huncha brothers to show an example of the likelihood of confusion in this case, particularly the steep discounts offered by a gray market operation that enticed them to try a new supplier of SKF bearings. CRB 124-25. They were disappointed when they learned that the bearings were manufactured in Malaysia, SKF USA contends. CRB 125. This is one example, SKF USA maintains, of similar incidents that are no doubt playing out all over the country, resulting in an ever-broadening pool of unhappy SKF bearing patrons. *Id.*

As Respondents assert only that their advertising efforts match those of SKF USA's authorized distributors, SKF USA contends, they therefore do not contest that their efforts are inferior to those of SKF USA itself. CRB 128-31. SKF USA's extensive marketing efforts have succeeded, SKF USA maintains, and are therefore worthy of trademark protection. *See* CRB 131-35.

Appendix C

Respondents' Position

Respondents argue that SKF USA has failed to present any evidence at trial to substantiate its allegations that advertising and marketing represents a material difference between authorized and unauthorized SKF-brand bearings. RIB 150-52. According to Respondents, SKF USA exercises little, if any, control over the marketing activities of its authorized distributors, and does not require its authorized distributors to obtain prior approval regarding the content of their advertisements, nor does SKF USA require its distributors to get formal written approval in order to run advertisements displaying the SKF logo. RIB 150; RRB 93. Respondents also argue that they and others have unfettered access to SKF USA's advertising materials as well as do authorized distributors, such as SKF's catalog, the SKF nomenclature guide, the SKF bearing installation and maintenance guide, and the SKF product guide, all of which are publicly available. RRB 93-94. Until very recently, Respondents point out, the standard Industrial Distributor Agreement signed by every SKF USA authorized distributor did not contain any policies or procedures relating to the proper use of the SKF trademark. RIB 151. Consequently, Respondents contend, in theory SKF's authorized distributors could be just as likely to advertise SKF bearings in modes unacceptable to SKF USA as would Respondents. *Id.*

Respondents further contend that as to their advertisements, there is no evidence in the record that they are of low quality or are in any way false or misleading. RIB 151. Respondents point to evidence in the record that their advertising is at least equivalent in quality to those utilized

by SKF USA's authorized distributors. RRB 94. At no time, Respondents contend, has SKF USA or its authorized distributors ever objected to McGuire's advertising efforts, and when Respondents do mention specific brands in their advertising efforts, they do so simply to notify customers of what brands are available for sale, much as a supermarket would advertise brands of cereals or detergents. RIB 151-52; RRB 95.

Respondents also contend that BL also engages in substantial advertising and marketing efforts concerning its sales of bearings. CIB 152. BL, according to Respondents, provides its distributor customers with a wide range of high quality multi-color marketing materials, including its Company Profile, Distributor Net Price Book, Next Day Air Freight Program flyer, and Emergency Service pamphlet, which acquaint customers with the full scope of BL's services regarding bearings. *Id.* BL employees also have extensive experience in marketing and sales-related activities, and receive comprehensive training in that area, including training regarding use of SKF catalogs, according to Respondents. *Id.* As for BL's excess offerings, Respondents maintain that they are no more harmful to the SKF mark than the marketing efforts of SKF USA's authorized distributors. RRB 96-97.

Accordingly, Respondents argue, there is no foundation for the conclusion that their advertising and marketing activities are inferior in any way to those undertaken by SKF USA's authorized distributors. RIB 152. Moreover, they contend, to the extent there are any differences between Respondents' advertising and promotional activities and

those of either SKF USA or its authorized distributors, such differences are not material or of a type that a relevant prospective purchaser would likely consider in making its purchasing decision. *Id.* Respondents contend that SKF USA presented no evidence at trial that the manner, type, quality or range of advertising for SKF bearings is something that a customer considers at all in making its purchasing decision. *Id.*

Commission Investigative Staff's Position

Staff agrees with Respondents that differences in the advertising and marketing of SKF-brand bearings between Complainant and Respondents do not constitute material differences as that term has been used in the case law. SIB 44. According to Staff, it is undisputed that SKF extensively advertises and promotes its products and it is also undisputed that to the extent Respondents advertise and promote SKF bearings, they do so simply to let consumers know what is available and what the prices are. *Id.* However, Staff contends, these differences are simply not the types of differences previously categorized by the courts as "material differences" sufficient to support a claim of trademark infringement. SIB 44; SRB 28.

Staff first points out that although SKF USA has provided extensive evidence of its advertising, it has not presented any evidence that it conducts any sort of promotional program on its authorized bearings (*e.g.*, where consumers buy a certain number of the products at issue and are then entitled to a gift or bonus from the manufacturer). SIB 44; SRB 29. This factual situation, according to Staff, is thus distinct from

the factual situations in which courts have found material differences in consumers' inability to redeem "gray market" products as part of a promotional program. SIB 44-45, *citing Phillip Morris, Inc. v. Allen Distribs., Inc.*, 48 F.Supp.2d 844; 853 (S.D. Ind. 1999) (finding material differences based on the fact that gray market imports could not be redeemed for points in the "Miles" program). Staff also contends that SKF USA has not provided any evidence that Respondents' advertising conflicts or interferes with SKF advertising or marketing. SIB 45. Staff also contends that there is no direct evidence of how consumers viewed SKF products based on Respondents' advertising, and SKF USA's expert did not conduct any surveys concerning consumer reactions to Respondents' advertising. *Id.* Thus, Staff contends, this is not a factual situation analogous to the relevant case law. Id., *citing Pepsico, Inc. v. Reyes*, 70 F. Supp.2d 1057, 1058, 1060 (C.D. Cal. 1999) (finding material differences based on interference with advertising and promotional strategies).

Finally, Staff contends, there has been no showing of materiality of the differences in marketing activities. SIB 45. Consistent with *Gamut Trading, supra*, there has been no showing that consumers consider the various types of advertising and marketing to be significant when making their purchasing decisions. *Id.* Staff also argues that SKF USA's advertising does not accompany a bearing at the point of sale, and therefore does not relate to the bearing itself or create a difference in the product at the point of sale. SRB 29-30. The Staff therefore does not believe that any differences in marketing materials constitute "material differences" in the bearings that could lead to trademark infringement. SIB 45; SRB 30.

Appendix C

Discussion, Analysis, and Conclusion

In response to Staff Interrogatory No. 2, SKF USA stated during the discovery phase of this case that it is the entity within the SKF Group that is "responsible for marketing and sales in the U.S. market" of the SKF Group's "worldwide product assortment." *See* SX-1 (SKF USA's response to Staff Interrogatory No. 2, at p. 11); **FF 235**. The degree of marketing and advertising that SKF USA performs in fulfillment of its role in the SKF plan proves that it is indeed the chief advertising and marketing spokesman of SKF in the United States.

SKF USA's promotional efforts are considerable. From 1998 through 2001, SKF USA expended over $[ ] million on advertising related to bearings that display the SKF marks. Bowen, Tr. 1044:5-23, 1046:21-1047:1; CX-867C; **FF 236**. A wide variety of SKF USA advertisements and promotional and educational materials have been produced, including about $ [ ] million per year in brochures and catalogs. Bowen, Tr. 1035 :10-1039:7; CX-693; **FF 237**.

Among its efforts, SKF USA has published a number of manuals and instructional materials to assist authorized distributors and end-users in the use of SKF bearing products. SKF USA has created a Product Guide for the U.S. market that is made available to authorized distributors by SKF USA's territory sales managers, who also provide them with a CD to train branch personnel in its use. Bowen, Tr. 1040:3-9; CX-693; **FF 238**. SKF USA has also published an Electric Motor Industry Repair Catalog, which lists the bearing products and the maintenance products and provides

information about them. Bowen, Tr. 1047:2-1050:24; CX-2652; **FF 239**. SKF USA has also published a Nomenclature Guide that provides authorized distributors with a way to look up a bearing number and find out what bearing it is. Bowen, 1053:9-20; RX-0033; **FF 240.** There is also a Bearing Installation and Maintenance Guide that contains SKF USA's recommendations for shaft and housing fits and different ways to install bearings. Bowen, Tr. 1053:21-1054:8; CX-2653; **FF 241**. SKF USA also has made a software program called "SKF Documented Solutions" that is directed toward end-users and is used by SKF salespeople with authorized distributors to show how savings can be made by converting currently-used products to SKF products. Bowen, Tr. 1054:23-1056:13; CX-833; **FF 242**. SKF USA has also published numerous articles in trade journals on various topics related to bearing applications, as well as advertising in the trade press. Snyder, Tr. 202:23-204:24; Bowen, Tr. 1056:23-1058:6; CX-754, CX-755; CX-756; CX-767; CX-849; **FF 243**.

Corporate sponsorships are also a large part of SKF USA's advertising budget. Among several such efforts, the most significant of these sponsorships is SKF USA's sponsorship of a NASCAR race car driven by Jeff Burton, on which SKF USA has spent more than a million dollars in sponsorship money over the last several years; the SKF logo appears on the car and on the uniforms worn by Burton and his racing crew. Bowen, Tr. 1030:22-1032:1; CX-867C; CPX-272 (cardboard stand-up of driver Jeff Burton); **FF 244**. SKF USA also engages in the distribution of promotional items, such as key chains featuring SKF bearings, mugs and T-shirts. Bowen, Tr. 1032:23-25; CX-2446C (Berggvist Decl. ¶¶ 1, 2,

14); **FF 245**. Trade show participation is also used by SKF USA to promote the company and its products. CX-2446C (Bergqvist Decl. ¶¶ 1, 2, 14); **FF 246**.

In addition, SKF USA sponsors advertising in cooperation with its major authorized distributors. SKF USA's authorized distributors are required to adhere to advertising and other standards designed to promote and protect the SKF marks. The December 2001 Industrial Distributor Agreement, and in particular Schedule C therein, provides the SKF USA authorized distributor with guidelines for the use of the SKF logo in advertisements and promotions with SKF USA's permission. Bowen, Tr. 1088:12-1089:15; CX-1064 (Industrial Distributor Agreement ¶ 10); RX-0061 (Schedule C); **FF 247**.

By contrast, Respondents' advertising efforts consist, for the most part, of simple price and inventory stock lists. *See, e.g.*, Jt. Stip. No. 15 (exhibits CX-1458, CX-1459, CX-1464, CX-1466, CX-1467, CX-1468, CX-1469, CX-1470, CX-1471, CX-1472, CX-1473, CX-1479, CX-2062, CX-2081, CX-2082C, CX-2725); CX-1027, CX-2062 and CX-2065 (BL); CX-1058, CX-2397 (CST); CX-320; CX-321, CX-322 (McGuire); **FF 248**. Other promotional materials convey only general information, not specific inventory stocks or pricing of particular products.[29] *See, e.g.*, Jt. Stip. No. 15 (exhibits CX-1486, CX-1489, CX-2727); CX-2071;

29. The issue of whether some of these advertisements convey false or misleading information, such as BL's alleged purchase of "factory fresh bearings" or the impression possibly left by some of its advertising that it is an authorized SKF distributor, will be dealt with in the false advertising section later herein.

MC-3029; RX-3035 (BL); CX-2399 (CST); **FF 249**. There is no evidence that Bohls advertises.

As discussed earlier in this Initial Determination in connection with warranties, the difference between SKF's advertising and promotional materials and Respondents' materials is a "blatant" one that would not confuse the relevant purchaser at all, not a subtle difference that such a purchaser might fail to pick up, thereby constituting "material difference." *See Nestle*, *supra*, 982 F.2d at 641. SKF USA's advertising and promotional materials consist of broadly disseminated informational and instructive items that are necessary in order for the public to know what products SKF sells and how it can be useful to a particular end-user's applications. The end-user is the target of these materials. SKF USA's corporate sponsorships and promotions are also geared toward the end-user, as well as the general public, for the purpose of achieving broad brand-name recognition in the marketplace, not to target the specific buyers who purchase bearings from authorized distributors. Yet, as Staff notes, there is no evidence in the record of how Respondents' advertising affects consumers' views of SKF products, and there is no evidence that Respondents' advertising interferes with SKF USA's promotional efforts at achieving broad brand-name recognition.

In the several PepsiCo cases cited by the parties, settlements of PepsiCo's trademark infringement allegations against gray market importers of Mexican Pepsi bottled soft drinks that were being sold in the exclusive territories of authorized domestic Pepsi bottlers were entered into, stipulating that the gray goods were materially different from

the authorized products, including in part that they "interfered with Pepsi's marketing, advertising and promotional efforts." *See PepsiCo, Inc. v. Longmont Packing, Inc.*, No. 99 D 1077, 1999 U.S. Dist. LEXIS 12811 (D. Colo. 1999); *PepsiCo, Inc. v. Reyes*, 70 F.Supp.2d 1057, 1059 (C.D. Cal. 1999); *PepsiCo, Inc. v. Nostalgia Prod. Corp.*, 1991 WL 113161 (N.D. Il. 1991). None of these cases detailed the specific ways in which the gray market products "interfered" with such efforts, and none offer any guidance to this investigation other than to acknowledge that such facts *may* constitute a "material difference" under the right circumstances. It is clear from these cases, moreover, that marketing, advertising and promotional activities did not constitute the primary material differences on which infringement was stipulated; those differences centered on labeling, language and quality control issues.

In *Philip Morris Inc. v. Allen Distributors, Inc.*, 48 F. Supp. 2d 844 (S.D. Ind. 1999) ("*Philip Morris*"), as well as in the Section 337 gray market infringement investigation in *Cigarettes*, marketing, advertising and promotional activities constituted a "material difference" only in that the sale of the gray market cigarettes in question frustrated consumers' interests in participating in promotional programs offered by the trademark holder. *See Philip Morris, supra* (foreign packs of cigarettes without the UPC codes and the promotional "Marlboro Miles" being offered on authorized cigarettes sold in the United States deprived consumers of participation in the "Miles" program); *Cigarettes, supra*, Initial Determination at 22-23 (gray market sellers do not participate in advertising and promotion initiatives, including nightclub programs, direct mail initiatives, and "buy one,

get one free" promotional offers). There is no evidence that Respondents in the instant investigation "interfere" with SKF USA's promotional efforts at all. There is no evidence that any promotional effort on SKF USA's part is tied directly to the purchase of an authorized SKF-brand bearing, such as the "Marlboro Miles" program of *Philip Morris* or the "buy one, get one free" offer in *Cigarettes.* SKF USA alleges only that Respondents advertising efforts are qualitatively different from SKF 'USA's advertising efforts. Respondent's promotional efforts focus on price and availability in stock, and as such are indeed different from and entirely independent of SKF USA's much broader "name recognition" marketing efforts. These activities, however, must be viewed as "blatantly" different to the relevant purchaser, not so subtly different as to constitute a "material difference" that is likely to result in customer confusion.

Accordingly, differences in advertising and marketing materials between SKF USA and Respondents do not justify a finding of gray market trademark infringement.

Appendix C

Issue I.B.9: Whether the bearings imported, sold, or offered for sale by Respondents are materially different from the bearings imported, sold, or offered for sale by Complainant (and/or sold by its authorized distribution network) based on differences in the issuance of certificates of origin and other certifications?

Complainant's Position

According to SKF USA, it supplies customers upon request with "certificates of compliance" that certifies conformance to requirements the customers make in an order to SKF USA. CIB 167. The standard certifies that the product that SKF USA ships to its customer meets the customer's requirements. *Id.* Another type of certification provided is more comprehensive, and is typically required by customers who are servicing the nuclear industry. It can only be signed by a select, more specifically trained group of SKF USA employees. CIB 168. Requests for these certificates come to SKF USA via its authorized distributors on behalf of their customers which the authorized distributors then pass to the customer. *Id.* According to SKF USA, Respondents cannot provide this form of certification. SKF USA also issues a "technical" certificate of compliance that must be issued by a manufacturing unit which cannot be issued by SKF USA's Logistics Services' employees, *id.*, and is another type of certificate that Respondents are incapable of providing, according to SKF USA. *Id.*

Appendix C

SKF USA also contends that under the North American Free Trade Agreement ("NAFTA"), goods originating in a NAFTA country, or goods containing a percentage of NAFTA-origin content, are entitled to preferential tariff treatment within the NAFTA zone. CIB 168. SKF USA contends that its Bearings Unit provides country-of-origin certificates under NAFTA's provisions that allow its customers to take advantage of this provision, particularly customers in the automobile industry. CIB 169. SKF USA contends that it also issues country-of-origin certificates for the automotive industry that declares the domestic content of a bearing's component parts. Only SKF USA or an SKF manufacturing unit can certify the parts content of an SKF bearing. CIB 170. According to SKF USA, its Bearings Unit issues about [ ] country-of-origin certificates each year. *Id.*

SKF USA argues that Respondents either provide no certifications or provide only very cursory ones of little or no value. CIB 169. According to SKF USA, BL does not supply customers with certificates of compliance originally issued by SKF USA. CIB 171. SKF USA further contends that BL cannot certify that an SKF bearing has been manufactured according to SKF's manufacturing specifications. *Id.* SKF USA also argues that BL cannot certify anything regarding the distribution of foreign-made SKF bearings before the bearings arrive at BL. *Id.* BL cannot certify anything pertaining to SKF USA, SKF USA contends. *Id.* BL's certificate of compliance only certifies that the bearings shipped conform to the customer's purchase order, SKF USA contends. *Id.* If a customer requests that BL obtain a certification from SKF USA, BL will not sell that bearing

to the customer, SKF USA contends. *Id.* If a customer requests a certification that BL cannot provide, BL will not sell that bearing to the customer, SKF USA further contends. *Id.*

SKF USA further argues that Bohls has never provided a certificate of compliance or country of origin certificate for an SKF bearing. CIB 171. As for CST, SKF USA argues that there is no evidence that CST issues either certificates of origin or certificates of compliance. *Id.* As for McGuire, SKF USA argues that McGuire's Triple Phase operation has never provided country-of-origin certificates, or certificates of compliance, to its customers, and that there is also no evidence that McGuire provides either type of certificate. CIB 172. SKF USA also contends that other settling Respondents do not issue such certificates. *Id.*

SKF USA takes issue with the contention of Respondents and Staff that certificates of origin are unnecessary because a customer can look at the etching on the bearing to determine its origin. CRB 136. It is necessary, SKF USA maintains, to allow customers to receive preferential treatment under NAFTA. *Id.*, *citing* 19 C.F.R. § 181.11.

Respondents' Position

According to Respondents, SKF USA does not have a consistent practice of providing certificates of origin. RIB 153. There is no reason to believe that SKF USA's Chicago Rawhide unit provides certificates of origin, nor is there any dispute that certificates of origin are not provided directly by SKF USA's authorized distributors. RIB 154. Respondents

also maintain that such certificates are unnecessary because SKF MUs etch a designation of the country of origin directly on the SKF bearings they manufacture. RIB 154. Designation of the country of origin is also provided on the packaging of an SKF bearing or the label affixed to that packaging. *Id.* Consequently, according to Respondents, country of origin information can be obtained without reference to any certificates of origin by looking at the etching on the bearing, the packaging for that bearing, and/or the labels affixed to that packaging. *Id.*

Respondents argue that SKF USA's allegation that the provision of country of origin certificates constitutes a "material difference" is without merit as to the individual Respondents. RIB 154. According to Respondents, BL provides country of origin information on the rare occasions when they are requested by customers. *Id.* BL does not provide its customers with separate "certificates" when a sale involves shipping an SKF bearing to another country, but it does provide country-of-origin information on its export invoices, BL maintains. RIB 155. Bohls never provides its customers with separate "certificates" because its sales never involve exporting or shipping an SKF bearing to another country. *Id.* As for McGuire, the country of origin for all SKF bearings imported by McGuire is marked on the packaging and/or the bearing itself, and therefore, McGuire's customers have never needed to request a county of origin certificate from McGuire, nor has McGuire independently provided such certifications to its customers. *Id.*

Regarding certificates of compliance, Respondents contend that SKF USA has failed to adduce evidence that

customers are concerned about such certificates when they make a purchasing decision. RIB 156; RRB 98-99. Respondents contend, however, that the trial testimony shows that certificates of compliance are not a material issue for consumers. RIB 156. Accordingly, Respondents maintain, the situation would never arise in which a consumer would discover the unavailability of a certificate after purchasing an SKF bearing such that the goodwill in the SKF marks would be damaged. *Id.* To Respondents, the availability of such certificates thus cannot create a material difference between SKF bearings imported, sold, or offered for sale by SKF USA and SKF bearings imported, sold, or offered for sale by Respondents. *Id.*

Commission Investigative Staffs Position

Staff argues that the evidence of record does not show "material differences" between Complainant's products and Respondents' products based on differences in the certifications of origin and other certifications offered with the bearings. SIB 46. According to Staff, the country of origin of an SKF bearing is etched on the bearing itself and also appears on the packaging. *Id.* Respondents issue country of origin certifications based on this information, Staff points out. *Id.* Thus, according to Staff, there does not appear to be any difference between SKF USA and Respondents in this respect. *Id.* With respect to other certifications, Staff contends, the evidence of record is insufficient to support SKF USA's claims. *Id.* SKF USA's "domestic content" certifications for NAFTA purposes come into play only as to Mexican bearings, but there is no evidence in the record as to how many certifications are offered or how significant

they are to consumers. *Id.* Similarly, Staff argues, although SKF correctly notes that Respondents cannot offer any certifications with respect to anything that SKF has done, there does not appear to be any evidence that any consumer has ever asked for such a certification. *Id.* Thus, Staff contends, the evidence does not seem to support a finding of "material differences" with respect to the availability of these types of certifications. *Id.*

Discussion, Analysis, and Conclusion

Under the U.S. Customs Service regulations implementing NAFTA, "[a] Certificate of Origin *shall* be employed to certify that a bearing exported either from the United States into Canada or Mexico or from Canada or Mexico into the United States qualifies as an originating good for purposes of preferential tariff treatment under the NAFTA." 19 C.F.R. § 181.11(a) (2002) (emphasis added). Thus, it is not the case, as Respondents argue, that a certificate of origin is not necessary to receive preferential tariff treatment under NAFTA; it is a *requirement.*

The Customs regulations implementing NAFTA also provide:

> Where the U.S. exporter is not the producer of the good, that exporter may complete and sign a Certificate on the basis of:
>
> (1) Its knowledge of whether the good qualifies as an originating good;

(2) Its reasonable reliance on the producer's written representation that the good qualifies as an originating good; or

(3) A completed and signed Certificate for the good voluntarily provided to the exporter by the producer.

19 C.F.R. § 181.11(b) (2002).

Under U.S. law, every article of foreign origin (or its container) imported into the United States, unless excepted, shall be conspicuously marked with its "country of origin." 19 U.S.C. § 1304(a). However, it has not been established in this investigation that "country of origin," as that term is used in the marking statute, necessarily coincides with NAFTA's definition of a good that "originates in the territory of a NAFTA country," which must be determined according to a rather complex set of statutory criteria. *See* 19 U.S.C. § 3332(a).

Since no one has established this connection between "country of origin" for marking purposes and an "originating good" for NAFTA purposes, it therefore has not been established that a U.S. exporter can merely rely on the "Made in Mexico," "Made in Canada," or "Made in the U.S.A." marking on a bearing or its packaging in order to sign a certificate of origin solely on "knowledge" grounds under subparagraph (1) of 19 C.F.R. § 181.11(b). Thus, the suggestion of Respondents and Staff that the country of origin marking on a bearing is all that one needs to give such certification is not well-founded.

Appendix C

It is more likely that a manufacturer's written representation of origin under subparagraph (2), or a certificate of origin signed by the manufacturer under subparagraph (3), is the more reliable basis on which to assure preferential tariff treatment under NAFTA. In that regard, although SKF USA has represented that Respondents cannot get such written representations or certificates from SKF USA *itself*, which is hardly surprising, there is no evidence in the record to show that Respondents cannot get such documentation directly or indirectly from the SKF MUs in Canada or Mexico (to the extent that there are any) from whom they obtain their bearings. SKF USA asserts that no one other than SKF USA *or an SKF MU* can certify the parts content of an SKF bearing. Bergqvist, Tr. 393:16-18; **FF 250.** In preparing its own certificates, SKF USA verifies country of origin by the coding of its products. Bergqvist, Tr. 394:11-15; **FF 251**. Even though providing such documentation is only voluntary on the part of an SKF MU, it only stands to reason that if Canadian or Mexican SKF MUs want to continue their business relationships with Respondents' foreign suppliers (whoever they may be), they will readily provide such documentation to those entities upon request, and those entities can pass them on to Respondents. There is no evidence in the record to show that SKF USA can prevent a Canadian or Mexican SKF MU from tendering such documentation to Respondents or Respondents' suppliers. There is no evidence to show that SKF USA itself would not obtain such documentation from the same sources, if for no other reason than just to verify its own code-based certification.

Appendix C

It must also be borne in mind that the relevant purchaser in this case is primarily in the industrial *aftermarket* for *replacement* bearings. There is no evidence in the record that such purchasers export the "used" equipment that they put these replacement bearings into, and thus need such certificates in order to take advantage of preferential tariff treatment under NAFTA. There is no evidence to show that such purchasers (if any) even care about receiving preferential tariff treatment under NAFTA. There is no evidence to show, for instance, that the cost differential that preferential tariff treatment provides to an exporter in this market is so attractive that the exporter will insist upon receiving a country of origin certificate so as to reduce the product cost to the market.

The evidence indicates that SKF USA issues about [ ] country-of-origin certificates each year, consisting mostly of blanket certificates that cover the whole year and the products that the customers normally purchase. Bergqvist, Tr. 394:4-8; CX-2296C; **FF 252**. The testimony offered by SKF USA at trial suggests that the customers who primarily need such certificates are automotive companies, who by law must be able to declare the domestic content of their vehicles, and other customers that export within the NAFTA countries. Bergqvist, Tr. 393:24-394:2; **FF 253**. However, there is no evidence demonstrating that Respondents cannot obtain or provide appropriate documentation to such purchasers that is adequate for their needs. Having not shown this much, SKF USA has not met its burden of proving the materiality of this difference; namely, that such customers "would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product." *Gamut Trading*, *supra*, 200 F.3d at 779.

Appendix C

As for certificates of compliance, SKF USA points in particular to purchasers in the nuclear power industry who purportedly require such certificates to comply with regulatory quality assurance requirements. *See* Stevens, Tr. 664:4-665:1; 10 C.F.R. § 50, Appendix B, II (Quality Assurance Program), VIII (Identification and Control of Materials, Parts, and Components); 10 C.F.R. § 21; **FF 254**. However, there is no evidence in the record that SKF USA or any Respondent furnishes bearings to the nuclear power industry. Even if that industry were indeed a customer of SKF USA or Respondents, there is no evidence in the record to suggest that Respondents would be any less capable than SKF USA of obtaining or furnishing such purchasers with the documentation that such purchasers require in order to meet their regulatory obligations. Thus, again, no "materiality" has been shown by SKF USA in this alleged "difference."

As for Respondents' actual experiences, it is undisputed that when BL ships bearings, including SKF bearings, to Mexico or Canada, it completes a NAFTA certificate of origin form that accompanies each shipment, along with the export invoices that accompany all export shipments to any country, and both forms contain the country of origin of the bearings that BL is exporting. Magray, Tr. 4938:13-4939:1; **FF 255**. It is also undisputed that both forms are completed by BL regardless of whether the customer asked for country of origin information. Magray, Tr. 4938:13-4939:1; **FF 256**. Although BL has produced no invoices or NAFTA certificates of origin showing the shipment of an SKF bearing having its origin in a NAFTA country, BL did produce such documentation when shipping to Canada SKF bearings originating in England.

Magray, Tr. 4939:2-4942:18; RX-3169C at BL 241226; **FF 257**. Thus, BL has demonstrated that it can indeed produce country of origin certificates.

As for certificates of compliance, BL produced a certificate of compliance that it issued to [ ] certifying that the bearings in question were SKF brand, that they conformed to the customer's purchase order, are new and successfully passed BL's quality control inspection. Magray, Tr. 3080:3-12; RX-3008C at BL 028491; **FF 258**. Thus, BL has established that it can indeed produce certificates of compliance.

At trial, Mark Magray, BL's designated corporate witness under Fed. R. Civ. P. 30(b)(6), admitted on cross-examination that BL does not supply customers with certificates of compliance originally issued by SKF USA. Magray, Tr. 3065:7-11; **FF 259**. Magray further admitted that if a bearing purchaser required BL to provide a certification from SKF USA, it would not be able to do so and would not sell the bearing to the customer. Magray, Tr. 3071:20-23; **FF 260.** However, it is undisputed that BL has never had any occasion to ask for any certifications from its vendors of SKF bearings, including those vendors that are SKF authorized distributors, and Magray stated that BL never had occasion to ask BL's foreign suppliers for such certification from an SKF Group MU. Magray, Tr. 3071:6-14; **FF 261**. Moreover, there is no evidence that BL has ever been or ever would be asked by a customer to furnish a certification from SKF USA, or that such certification would be needed by any customer, particularly when BL does not even buy its SKF bearings from SKF USA. Magray also admitted at trial that although

BL can certify that a bearing is an SKF brand, it cannot certify anything regarding the manufacturing or foreign distribution of that bearing. Magray, Tr. 3066:8-13; 3068:25-3069:6; **FF 262**. Again, however, there is no evidence that such a requirement has ever been demanded of BL by any of its customers, and even if it were, there is no evidence to show that BL could not obtain such documentation from an SKF MU through its own foreign suppliers.

As for Bohls, it has never been asked to provide a country of origin certificate for an SKF bearing and has never provided one, and the same is true for certificates of compliance. Bohls, Tr. 3496:1-8; **FF 263**. Concerning McGuire, its Triple Phase operation has never provided country-of- origin certificates or certificates of compliance to its customers. *See* Ian McGuire, Tr. 3180:17-23; **FF 264.** There is no evidence in the record as to whether CST has ever been asked to provide, or has provided, such certificates.

In sum, SKF USA has failed to satisfy its burden of proving that there is any difference, much less a "material difference," between its ability to furnish customers with country-of-origin certificates or certificates of compliance and Respondents' abilities to do so. There is no proof that customers need such certificates that contain particular information or come in any particular form that Respondents cannot provide, and there is no proof that Respondents cannot obtain such certificates from SKF Group MUs that supply Respondents' foreign vendors of SKF bearings. Finally and importantly, from the record evidence, there is no basis to conclude that the [ ], on average, certificates that SKF USA issues each year represents any significant proportion of the

total number of bearings it sells. Accordingly, certifications do not represent a material difference on which a finding of gray market trademark infringement can be justified.

Issue I.B.10: Whether as a matter of law, a trademark owner can prohibit the importation of trademarked products if the products are produced by the trademark holder's affiliated commonly-controlled manufacturing units and if the products are physically identical to the products that the trademark owner imports, sells, and offers for sale in the United States market?

Complainant's Position

According to SKF USA, the Commission and the Federal Circuit have rejected the "common control" exception to gray market trademark infringement and also do not limit the "material differences" standard to physical differences. CIB 172-179. Hence, SKF USA maintains, even if the Commission were to conclude that every gray market SKF bearing imported, sold and offered for sale in the United States by Respondents was physically identical in every respect to a corresponding authorized SKF bearing imported, sold and offered for sale in the United States by SKF USA, such a finding would not as a matter of law — preclude SKF USA from prevailing on its trademark claims. CIB 172-73. Other significant attributes of authorized SKF bearings include a number of non-physical differences, SKF USA argues, such as quality control assurance, technical and engineering support, packaging and labeling consistency,

warranty protection, product recall notice, marketing and promotional materials, and the availability of certificates of origin and compliance. CIB 173. These attributes, SKF USA argues, constitute "material differences" from Respondents' unauthorized products that justify a finding of gray market trademark infringement.

Respondents' Position

Respondents argue that the SKF-brand bearings that it sells are physically identical to the SKF-brand bearings that SKF USA sells, and that the non-physical differences identified by SKF USA do not rise to the level of materiality required for gray market trademark infringement. *See* RIB 157-61. The alleged non-physical differences are irrelevant to the material differences analysis, Respondents maintain, because they are, effectively, "mere utterance," in that SKF USA's distribution network does not implement the packaging and labeling or quality control procedures alleged by SKF USA, and the alleged after-market services SKF USA offers are not viewed by consumers as an integral part of their purchase of an SKF bearing nor are consistently available only to customers of SKF USA and its authorized distributors. RIB 157-58. Respondents also contend that the doctrine of "common control" renders trademark law inapplicable to SKF USA's case because it gives way only when there are proven material physical differences between a domestic subsidiary's trademarked goods and trademarked goods manufactured abroad and imported without the domestic trademark holder's consent. RIB 158.

Appendix C

Commission Investigative Staff's Position

The Staff is of the view that Section 337 bars importation of "gray market" trademarked products, even in the absence of physical differences between the "gray market" products and the authorized products, so long as there are other "material differences" between the products. SIB 47. According to Staff, precedent makes it clear that "physical differences" are only one type of material difference considered by the courts when determining whether trademark infringement has occurred. *Id.* Staff feels that there is no hint in these precedents that the courts would have reached a different determination if only non-physical differences, such as differences in quality control and services, had been present. *Id.* Staff argues that, given that Section 337 is a remedial statute which is to be construed broadly to prevent any unfair practices in the import trade, there is no basis for limiting the scope of Section 337 in gray market investigations to only those cases involving "physically" different products. *Id.*

Discussion, Analysis, and Conclusion

As recited, *supra*, the three separate sections of U.S. law have so far resulted in two differing interpretations. The two differing interpretations have led to two distinct results despite the fact that all agree that — when interpreting such rights — trademark rights germinate from the wellspring of the territorial nature of a trademark's goodwill. As a result, within the Federal Circuit, the authorized first sale of a trademarked good anywhere in the world may no longer exhaust a U.S. trademark holder's right to bar the subsequent

importation and sale of a gray good into the United States. *See Gamut Trading*, *supra*, 200 F.3d at 778. It is well established in Commission and Federal Circuit precedent that the "material differences" analysis of gray market trademark infringement under the Lanham Act can encompass non-physical differences. *See*, *e.g.*., *Gamut Trading*, *supra*, 200 F.3d at 781. It is also well settled that when "material differences" exist between the authorized product and the unauthorized product, trademark infringement can be found "even when the holders of the domestic and foreign trademarks are related companies." *Gamut Trading*, *supra*, 200 F.3d at 779.[30] Nevertheless, this remains a case of first impression as to the applicability of the "common control" exception to a factual circumstance where there are no physical differences but only a material non-physical difference. Given the Federal Circuit's decision in *Gamut Trading*, *supra*, the undersigned concludes that the lack of a physical difference may not be material.

That being said, however, it is not the case that a "material difference" is simply whatever a trademark holder says it is. A trademark holder has the burden of proving, by a preponderance of the evidence, that identified differences are "material" ones, in that "consumers would be likely to consider the differences between the foreign and domestic products to be significant when purchasing the product, for

---

30. As pointed out earlier herein, the "common control exception" to the exclusion of imported gray market goods under Section 526 of the Tariff Act, as interpreted by the U.S. Customs Service, is a separate issue that is unique to that regulatory scheme, not a general of trademark infringement law under the Lanham Act or under Section 337. *See K-Mart*, *supra*, 486 U.S. at 289-90.

such differences would suffice to erode the goodwill of the domestic source." *Gamut Trading*, *supra*, 200 F.3d at 779. There must be *some*, difference, because gray goods that are identical in all respects to authorized goods cause no confusion and do not infringe. *See Weil*, *supra*, 878 F.2d at 668 (gray-market "Lladro" figurines identical to authorized "Lladro" figurines; hence, no infringement). On the other hand, the differences cannot be "blatant" differences, because such differences also cause no confusion and do not prove infringement. *See Nestle*, *supra*, 982 F.2d at 641 ("using the same mark on two blatantly different products normally does not offend the Lanham Trade-Mark Act, for such use is unlikely to cause confusion and is, therefore, unlikely to imperil the goodwill of either product."). "Material differences" lie somewhere in the middle; they are "subtle differences, for it is by subtle differences that consumers are most easily confused." *Id.* It is the burden of the trademark holder to maneuver in the continuum between the Scylla of identicalness and the Charybdis of blatancy in order to demonstrate material differences warranting a finding of gray-market trademark infringement.

Thus, to the extent that even one identified non-physical difference between SKF USA's authorized SKF-brand bearings and Respondents' unauthorized SKF-brand bearings has been shown by SKF USA to constitute a "material difference" between the products, gray market trademark infringement lies, even though SKF USA is a related company to AB SKF and the foreign SKF Group MUs that supply physically identical bearings to both SKF USA and Respondents. *See Tractors*, *supra*, Commission Opinion at 10 ("[T]he courts have stated that a single material difference is sufficient to establish trademark infringement.").

Appendix C

Issue I.B.11: Whether the operations of non-party entities demonstrate material differences between the bearings imported, sold, or offered for sale by these entities and those bearings imported, sold, or offered for sale by Complainant (and/or its authorized distribution network)?

Complainant's Position

According to SKF USA, non-party importation of SKF bearings, and/or sales of SKF bearings after importation, is relevant to injury and remedy, because it demonstrates the scope of the gray market problem in the United States. CIB 180; CRB 141. SKF USA makes particular reference to the testimony of Ben Baker of Baker Bearing, which imports some SKF bearings from entities located abroad but does ~~not~~ control quality or attempt to provide technical or engineering support regarding those bearings. CIB 180.

Respondents' Position

Respondents contend that under Commission precedent, SKF USA cannot rely on evidence concerning non-party entities to establish Respondents' alleged violation of Section 337. RIB 161; RRB 105. Respondents agree, however, that such evidence is relevant to support a showing of "tendency substantially to injure" and to the issue of remedy. RRB 105.

Appendix C

Commission Investigative Staff's Position

Staff is of the view that the operations of various non-parties demonstrate the same "material differences" as do the operations of the party Respondents. SIB 50; SRB 33. Staff also agrees that evidence of such similarities is relevant to the issue of remedy, and specifically whether or not a general exclusion order is appropriate. SIB 50. Such evidence is not relevant to the question of whether the participating Respondents have violated Section 337, Staff notes. SIB 50.

Staff also submits that with respect to the various non-parties and settled Respondents as to whom evidence was presented at the hearing, this evidence indicates that these non-parties had the same material differences in services as do the participating. Respondents. SIB 50.

Discussion, Analysis, and Conclusion

Concerning Section 337 claims that are not based on U.S.-registered intellectual property rights, such as the common-law trademark claim made in this investigation, a violation of Section 337 can be shown only if the unfair import has the threat or effect of "destroy[ing] or substantially injur[ing] an industry in the United States." 19 U.S.C. § 1337(a)(1)(A)(i). Further, when considering whether a general exclusion order rather than a limited exclusion order is an appropriate remedy, the Commission is required to consider, *inter alia*, whether "there is a pattern of violation of [Section 337] and it is difficult to identify the source of infringing products." 19 U.S.C. § 1337(d)(2)(B). SKF USA and Respondents are in rare agreement with one another that

the operations of non-party entities are relevant to the issues of a "tendency substantially to injure" a domestic industry and of whether a general exclusion order is appropriate remedy under Section 337, but not to any other issue in this investigation. Staff agrees that such evidence is relevant to remedy, but takes no position as to whether such evidence is relevant to "tendency substantially to injure."

Taking "tendency substantially to injure" first, although SKF USA and Respondents agree, their position on the relevance of non-party evidence to this issue is legally incorrect. Rather than accept such evidence for that purpose, in *Certain Double-Sided Floppy Drives and Components Thereof*, Inv. No. 337-TA-215 ("*Floppy Drives*"), Order No. 24, Initial Determination Concerning Motions for Intervention, 1985 WL 303729 (August 23, 1985), the Commission reversed the ID and decided to exclude the evidence offered by the complainant that related to the products of non-respondents. *Floppy Drives*, Commission Opinion (U.S.I.T.C., September 26, 1985); *also see* 50 Fed. Reg. 40242 (October 2, 1985). The Commission's rationale for so doing was as follows:

> Not only has complainant failed to introduce evidence of infringement with respect to products of non-respondents, but these non-respondents have had no opportunity to take discovery or participate in the investigation. To admit evidence relating to products of non-respondents to establish tendency to substantially injure with only a showing by complainant that such products are identical or similar to products of the named

> respondents is contrary to the requirement that a complainant establish the existence of an unfair act, *i.e.*, patent infringement in this investigation, by a preponderance of the evidence. Admission of such evidence at this time in the investigation would also be prejudicial to the ability of the non-respondents to present evidence or rebut the allegations regarding their products.

Floppy Drives, Commission Opinion at 3-4 (U.S.I.T.C., September 26, 1985). This Commission ruling was cited in *Certain Chemiluminescent Compositions and Components Thereof and Methods of Using the Same*, Inv. No. 337-TA-285, Order No. 24, 1989 WL 609139 (U.S.I.T.C., March 22, 1989) ("*Chemiluminescent Compositions*") to reject evidence of imports of non-parties on the injury issue as well, contrary to Respondents' citation of this order for the opposite conclusion.[31] Accordingly, evidence pertaining to non-party entities will not be considered in connection with the issue of "tendency substantially to injure."

Concerning the recommended determination on remedy, however, all parties are correct that evidence of non-party

31. In a few instances before the Commission Opinion in *Floppy Drives*, some evidence of third-party imports had been taken in some investigations as "additional pertinent factors relevant to the issue of injury." *See Chemiluminescent Compositions*, Order No. 24, *supra; also see Floppy Drives*, Order No. 24, *supra* (citing *Certain Combination Locks*, Inv. No. 337-TA-47, Recommended Determination at 24 (1979), and even an earlier ID in *Floppy Drives*). However, the above quote from *Floppy Drives* is the only Commission pronouncement on the issue, and in the absence of citation to any contrary authority, it is binding on this investigation.

imports is relevant to the issue of whether a general exclusion order or a limited exclusion order is the appropriate remedy if a violation of Section 337 is found. *See Certain Two-Handle Centerset Faucets and Escutcheons, and Components Thereof*, Inv. No. 337-TA-422, Commission Opinion on Remedy, the Public Interest, and Bonding at 7 (U.S.I.T.C., July 21, 2000) (issuing a general exclusion order based in part on evidence of infringement by former respondents and non-respondents in the investigation); *Certain Rare-Earth Magnets and Magnetic Materials and Articles Containing Same*, Inv. No. 337-TA-413, U.S.I.T.C. Pub. No. 33307 (May 2000), Commission Opinion on Remedy, the Public Interest, and Bonding at 7-8 (U.S.I.T.C., December 10, 1999) (finding evidence with respect to settled respondents and non-parties relevant to the issue of remedy). Accordingly, the proffered evidence will be considered only in that context, in the "Recommended Determination" section on remedy later herein.

Issue I.B.12: Whether any of the alleged material differences between the products imported, sold, or offered for sale by Complainant and the products imported, sold, or offered for sale by the Respondents actually cause customer confusion in the U.S. marketplace?

Complainant's Position

SKF USA argues that evidence of actual confusion can take several forms. CIB 181. A person might claim he was literally confused after encountering an infringing product, or he might assert that an infringing product did not meet

his or her expectations. *Id.* There are examples of each type of actual confusion in this investigation, according to SKF USA, primarily in the testimony of Mike McConville, [ ], Jim Huncha, John Huncha, and [ ] *Id.*

SKF USA points to the testimony of McConville concerning his experiences purchasing bearings from McGuire on behalf of a McGuire OEM customer, Truss Joist. CIB 181. McConville testified that, when ordering bearings, he specified the brand as well as several other features "because we had designed the machinery to accept those tolerances, those sizes, that quality level. And that is what we wanted." *Id.* In light of the fact that Truss Joist was a manufacturer of saw mills, McConville testified, "for us it was a safety concern." *Id.* Although he specified SKF brand bearings, McGuire would frequently supply McConville with another brand. CIB 182. This caused confusion, according to SKF USA. *Id.*

[

]

SKF USA also refers to the testimony of Jim Huncha regarding his purchase of SKF bearings from an unauthorized distributor (Tull) at about half the price he normally pays for SKF bearings purchased through authorized channels, only to be disappointed upon receiving SKF bearings made in Malaysia. CIB 184. SKF USA also notes that Jim Huncha's brother, John, testified that Tull did not meet his expectation

that they would supply U.S.-made SKF bearings. CIB 184-85.

[

]

SKF USA argues that Respondents ignore the evidence of actual confusion. CRB 141-42. SKF USA also rejects Respondents' reference to the testimony of Pearce and Davis as placing inordinate weight on the testimony of very few witnesses. CRB 142. Further, according to SKF USA, price, availability and customer service are not the only factors that bearing purchasers take into account. *Id.*

Respondents' Position

Respondents argue that each of the alleged material differences on which SKF USA bases its infringement action neither cause actual consumer confusion in the U.S. marketplace nor provide a basis from which such confusion can be inferred. RIB 162-69. Respondents also maintain that the factors that witnesses testified were important when deciding from where to purchase bearings are primarily price, availability and customer service. RIB 169-73. In terms of customer service, Respondents pointed to the testimony of customers Miker Davis, Jason Pearce and Anthony Gaetz of their favorable experiences [ ] RIB 171-73.

Appendix C

Respondents reject SKF USA's contention that customer dissatisfaction with Respondents' services is the test for actual confusion, arguing instead that confusion as to source or sponsorship is the true test. RRB 107-08. In this connection, there is no evidence that any of the customers that SKF USA refers to blamed SKF USA or held SKF USA responsible for their unsatisfactory product experiences with Respondents. RRB 110.

Commission Investigative Staff's Position

Staff is of the view that the evidence of record, although not extensive on this point, does indicate some level of consumer confusion and dissatisfaction as to the services and support offered in connection with "gray market" SKF bearings. SIB 51-52. Staff points to McConville's testimony of his unfavorable experiences with the support he received from McGuire compared to the support he received from Motion, an authorized SKF distributor. SIB 52. [

] Also, Davis did not think that the SKF warranty applied to [ ] Staff points out. *Id.* This evidence, Staff asserts, shows that at least some customers were not pleased with the differences, or were confused about the differences, between the authorized products and the gray market imports. *Id.*

Staff argues that Respondents miss the point in arguing that there is no evidence of actual confusion because consumers do not credit the "material differences" identified by SKF USA. *See* SRB 34-35. Further, Staff points out, the

fact that Respondents are offering what are apparently the same bearings at a cheaper price is itself evidence of confusion. SRB 35.

Discussion, Analysis, and Conclusion

Under the Lanham Act, the benchmark for trademark infringement is the "likelihood of confusion" test. *Weiss Associates Inc. v. HRL Associates Inc.*, *supra*, 902 F.2d at 1549. That test is satisfied in gray market cases by evidence of material differences between the authorized and unauthorized products, because "[t]he existence of material differences creates a legal presumption that consumers are likely to be confused as to the source of the gray market product, resulting in damage to the markholder's goodwill." *Tractors*, *supra*, Commission Violation Opinion at 6, 44 U.S.P.Q.2d at 1389, 1997 WL. 687372; *accord*, *Martin's Herend*, *supra*, 112 F.3d at 1301-02; *Nestle*, *supra*, 982 F.2d at 640. A trademark holder "need only show that a likelihood of confusion is in prospect; a showing of actual confusion is not required." *Nestle*, *supra*, 982 F.2d at 640. Nevertheless, "[c]onvincing evidence of significant actual confusion occurring under actual marketplace conditions is the best evidence of a likelihood of confusion." 3 J. T. McCarthy, *McCarthy on Trademarks and Unfair Competition* § 23:13 (2001) ("*McCarthy*"). Indeed, when purchasers of the parties' goods or services are sophisticated professionals, as is the case in this investigation, evidence of actual confusion "is perhaps most probative." *Morningside Group Ltd. v. Morningside Capital Group, L.L.C.*, 182 F.3d 133, 143 (2d Cir. 1999). On the other hand, "an absence of actual confusion, or a negligible amount of it, between two products

after a long period of coexistence on the market is highly probative in showing that little likelihood of confusion exists." *Aktiebolaget Electrolux v. Armatron Intern., Inc.*, 999 F.2d 1, 3 (1st Cir. 1993).

The types of confusion that are actionable under the Lanham Act are consumer confusion as to source which occurs at the point of sale, as well as consumer confusion as to affiliation, connection or sponsorship. *See* 15 U.S.C. § 1125(a); *also see* 3 *McCarthy*, §§ 23:5, 23:8. In this gray market case, actual confusion as to source is not at issue, since the source of both authorized and unauthorized SKF bearings is exactly the same. Actual customer confusion can only exist here, if at all, with respect to "affiliation, connection or sponsorship" between trademark holder SKF USA on the one hand and individual Respondents on the other. In this case, the purported instances of actual confusion on which SKF USA relies are found in the trial testimony of Mike McConville, [ ], Jim Huncha, John Huncha, and [ ], all customers of one of the Respondents or a non-respondent gray marketer.

McConville testified concerning his experiences purchasing bearings from McGuire on behalf of a McGuire OEM customer, Truss Joist. He testified that, when ordering bearings, he specified the brand as well as several other features "because we had designed the machinery to accept those tolerances, those sizes, that quality level. And that is what we wanted." McConville, Tr. 971:13-972:12; **FF 265**. In light of the fact that Truss Joist was a manufacturer of saw mills, "for us it was a safety concern. We did not want to risk there being any problems with the bearing. It's not a

wise bet to gamble on quality for a price that, you know, that the service, the machining capabilities and the quality may not be there." McConville, Tr. 972:22-973:3; **FF 266.**

According to McConville, although he specified SKF brand bearings, McGuire would frequently supply another brand. This would cause him concern, he said, "[b]ecause with our receiving individuals, it was very confusing for the people that were performing their specific function, not knowing enough about the quality of the product that was coming in, not understanding their part number system to *see* if we actually had received what we ordered. When the part numbers aren't the same, then, of course, our designations to identify parts is thrown off. So there was a lot of problem trying to determine if we actually got what we ordered." McConville, Tr. 974:25-975:14; **FF 267**. McConville further testified that he viewed McGuire's habit of brand substitution to exhibit "poor quality" the frequency of which was "not worth any amount of money that we saved." McConville, Tr. 1024:13-16; **FF 268**.

McConville's testimony is not probative of actual confusion on the part of a *customer*; it is probative of actual confusion on the part of *McGuire*. The fact that McGuire would substitute a different brand of bearing for the requested SKF brand is not evidence of confusion as to affiliation, connection, or sponsorship by SKF USA, because that issue was irrelevant to McConville's testimony. McConville was concerned only about receiving a non-SKF brand bearing, not about receiving a bearing from someone other than an authorized SKF USA dealer. Other than indicating poor technical and engineering support on McGuire's part in filling

an order (a difference that has already been taken in to account in this Initial Determination in section I.B .4 above), McConville's testimony is not probative on the issue of actual confusion.

[

]

[

]

[

]

[

]

[

]

[

]

[ ]

[ ]

[

]

[

]

Appendix C

[ ]
[
]
[ ]
[
]
[

FF 271.

]

SKF USA's next witness, James Huncha, testified that he purchased SKF bearings from an unauthorized distributor named Tull at about half the price that he normally paid for SKF bearings purchased through authorized channels. James Huncha, Tr. 833:6-24; **FF 272**. When he ordered the bearings from Tull, James Huncha testified, he specified that they should be U.S.-made bearings. James Huncha, Tr. 844:19-845:3; **FF 273**. However, when his brother, John Huncha, opened the box upon receipt, James Huncha testified, he "saw SKF bearings made in Malaysia. As far as I know, I never saw a bearing made in Malaysia. I thought they might be counterfeit bearings." James Huncha, Tr. 833:25-836:2; CPX-41.0C; CPX-42.0C; CM-43.0C; CPX-44.0C; and CM-45.0C; **FF 274**. Although James Huncha had no prior experience with Malaysian-made bearings, his experience with Japanese-

made bearings when he was a boy about 20 years before left him skeptical about the quality of Asian-made bearings in general: they "did not last as well. They were not compared to an American made bearing." James Huncha, Tr. 839:19-24, 845:21-22, 850:4-15; **FF 275**. James Huncha's brother, John, also testified that Tull did not meet his expectation that it would supply U.S.-made SKF bearings, which he considered to be of better quality than Asian-made bearings. John Huncha, Tr. 855:4-11; **FF 276**. The Huncha brothers ordered bearings from authorized distributor Motion instead, and received from Motion U.S.-made JEM bearings for their electric motor application. John Huncha, Tr. 857:4-25; **FF 277**.

As with the previous witnesses, there is no evidence that the Huncha brothers were confused as to the sponsorship, connection or affiliation of Tull or Tull's products to SKF USA. They were merely the recipients of poor service on the part of Tull in supplying Malaysian-made SKF bearings when U.S.-made SKF bearings were specifically ordered. The Hunchas knew that they wanted U.S.-made bearings, and from the moment that they opened the box and saw that the bearings that they had received from Tull were made in Malaysia, they knew that they did not get what they wanted. Again, this testimony does not demonstrate actual customer confusion under provisions of the Lanham Act.

[

FF 278.

Appendix C

FF 279.

]

[
FF 280.

FF 281.]

[

]

[

FF 75; FF 76; FF 77; FF 343.

.]

In sum, other than the evidence of actual confusion regarding technical support mentioned above, the anecdotal evidence relied upon by SKF USA to show actual customer confusion between its authorized SKF bearings and Respondents' unauthorized gray-market bearings is devoid of probative value.

Appendix C

Issue I.B.13: Whether there exists confusion in the market place on a broader scale due to the sale of SKF branded products by non-authorized entities?

Complainant's Position

In addition to presenting proof of material differences and proof of actual confusion, SKF USA also submitted a consumer survey conducted by Dr. Henry Ostberg that attempted to measure both the fame of the SKF marks and the existence of consumer confusion regarding gray market sales of SKF bearings. CIB 186-93. Dr. Ostberg concluded, and Respondents do not contest, that the SKF marks are famous. CIB 186. As for consumer confusion, Dr. Ostberg targeted actual purchasers of gray market SKF bearings, and found that:

- about two-thirds of the purchasers who had bought from unauthorized distributors believed (incorrectly) that their distributor was authorized by or affiliated with SKF USA;

- about two-thirds of these purchasers believed (incorrectly) that they were entitled to technical/ engineering support from SKF USA; and

- about one-half of these purchasers believed (incorrectly) that these bearings had been subject to the quality control procedures of SKF USA.

CIB 187. According to SKF USA, the first finding goes to the Lanham Act element of confusion as to affiliation or

sponsorship, and the other findings reinforce the first conclusion, highlighting the existence of confusion as to the purported material differences in technical support and quality control. *Id.*

SKF USA argues that the percentages found by Ostberg are significant. CIB 187. SKF USA also maintains that the credibility of the survey is enhanced by its design as a double-blind inquiry, using established guidelines, a control question, supervised interviewers who certified each survey as having been conducted in accordance with the instructions, verbatim recording of responses, validation of a sub-sample of the completed interviews by an independent interviewing service, and the use of a random sample provided by Dun and Bradstreet. CIB 188.

SKF USA rejects several criticisms of Ostberg's survey by Respondent's rebuttal expert, William Neal, who did not conduct his own survey. CIB 188. In connection with the critique of whether Ostberg had correctly categorized sellers as authorized or unauthorized distributors, Ostberg was ordered by the undersigned to double-check his categorizations and submit a supplemental report, which confirmed that 51 survey participants had purchased from unauthorized distributors, and that significant confusion existed among those individuals. CIB 189. Although this number was reduced from Ostberg's original finding of 56 participants, SKF USA contends that the supplemental report does not result in a significant change in the data from the original report. *Id.*

Appendix C

Concerning Neal's critique of Ostberg's sample size, SKF USA argues that surveys of between 16 and 25 people have been deemed adequate in prior Section 337 investigations. CIB 191. SKF USA further points out that Neal agreed that in a survey size of 50, a proportion of 50 percent has a margin of error of plus or minus 14 percent, and a degree of confusion of 36 to 64 percent is a sufficient degree of confusion. CIB 192.

Concerning Neal's critique of Ostberg's sampling universe, SKF USA argues that the universe was derived from data of the American Bearing Manufacturers' Association ("ABMA"). CIB 192. The sample was randomly selected based on that and other data, according to SKF USA. CIB 192; CRB 146. The ABMA provided merely 70 SIC codes, whereas Ostberg included 3,400 SIC codes. CRB 147. The fact that "unlikely" purchasers may have showed up in the sample is a red herring, SKF USA contends. CIB 192. Regardless of whether Neal found some of the universe to include "unlikely" bearing users, SKF USA maintains, all persons in the sub-sample to whom survey questions on confusion were directed had, in fact, bought SKF bearings. CIB 192; CRB 143. At most, SKF USA argues, the survey universe a little overly broad, but that fact does not detract from the strength of the survey. It would have been more of a flaw, SKF USA argues, had Ostberg excluded SIC codes and made the survey under-represented. CRB 147. SKF USA acknowledges that supplemental submission made clear that the "unlikely" purchasers in the overall sample were in SIC codes provided by Dun and Bradstreet that were not requested by Ostberg, but even assuming that fact, SKF USA argues, it points to nothing more than an error on the part of Dun and

Bradstreet, *not* Ostberg. CIB 192. Respondents cannot rebut the fact that the survey respondents are actual purchasers who were actually confused, SKF USA maintains. CRB 143.

In connection with Neal's other critiques of the Ostberg survey, SKF USA argues that Respondents' own expert, Neal, agreed on cross-examination that the use of a control question instead of a control group is not grounds on which to reject a survey. CRB 144. He also agreed, according to SKF USA, that courts frequently credit surveys that do not have pilot studies. *Id.* As for the involvement of SKF USA's attorneys in the survey, SKF USA argues that such participation is acceptable. CRB 145-46.

Respondents' Position

Respondents contend that the Ostberg survey of customer confusion in the market place on a broader scale is flawed in several respects, as noted by their expert, Neal. RIB 173-91. To be admissible into evidence, Respondents argue, the SKF USA survey must meet the threshold test of relevance set forth in Fed. R. Evid. 402, and because it is involves the ascertainment of facts by interrogating others out of court, resulting in multiple hearsay, the SKF USA survey must also meet the test of necessity and trustworthiness to be admissible. RIB 174. As such, Respondents maintain, the SKF USA survey is admissible only if SKF USA meets its burden of offering evidence establishing that the survey was conducted in accordance with accepted principles of survey research. *Id.* Respondents further contend that, by opposing the admissibility of the survey, they nevertheless do not have the burden of proving that the survey is untrustworthy. *Id.*

Appendix C

The Ostberg survey fails the requirement of relevance, Respondents maintain, because it does not elicit information as to whether the SKF bearings purchased by the survey interviewees were unauthorized imports or authorized SKF bearings initially sold by SKF USA. RIB 175-76. Unauthorized distributors can and do sell authorized SKF bearings that were initially sold by SKF USA, Respondents point out, sourcing such products from OEM resale, uncontrolled sales by authorized SKF distributors, government surplus resale, or even SKF USA itself. RIB 176. Without knowing whether an unauthorized SKF import was purchased, the purchaser's belief about the product and the vendor is meaningless in this case, Respondents contend. *Id.* Respondents also argue that the survey is irrelevant as to BL and CST because Ostberg did not intend to sample a universe including distributors of bearings, purchasers to whom BL and CST sell almost exclusively. RIB 176.

Respondents further consider the Ostberg survey to be flawed under the factors for evaluating surveys utilized by the Commission. RIB 174-75. Respondents consider the sample size to have been too small, given the heterogeneity of the relevant market of bearing purchasers. RRB 116-17. Respondents also fault the survey for lack of clarity as to what universe was sampled. RIB 177. Although Ostberg testified that he surveyed purchasers of bearings and that he did not intend to include distributors, Neal found by studying the Dun & Bradstreet sample list used to conduct the SKF USA survey that in fact bearings distributors *were* included in the sample, but not in sufficient numbers to be representative. RIB 178. The instructions given to Dun & Bradstreet for pulling the sample list might have given some

clue as to the survey universe, Respondents maintain, but Ostberg testified that he was not personally involved in that process; instead, his staff, working with SKF USA attorneys, identified SIC codes of companies that would buy bearings and then provided Dun & Bradstreet with descriptions by name and SIC codes by number, from which Dun & Bradstreet generated the sample list. *Id.* No written record of the instructions to Dun & Bradstreet was included in the SKF USA survey report. *Id.*

Respondents point out that Ostberg produced two SIC code lists (one attached to his preliminary report and one produced during his deposition) that he said constituted the "full list" of SIC codes included in the Dun & Bradstreet sample list. However, when Neal performed his supplemental analysis of Ostberg's findings as ordered by the undersigned, Neal found that the Dun & Bradstreet sample list contained many listings for company types that were not within the SIC codes listed on these two SIC code lists. RIB 178; RRB 115. Company types such as general medical and surgical hospitals (with 717 appearances in the sample list), elementary and secondary schools (with 126 appearances on the sample list), and advertising agencies (with 58 appearances in the sample list) appeared with high frequency in the Dun & Bradstreet sample list, but their SIC code equivalent could not be found on the two SIC code lists that Ostberg claimed were the "full list" of the survey universe. RIB 178-79. According to Respondents, SKF USA offered no evidence that such company types are bearings purchasers, and common sense would suggest that they are not. RIB 179.

Appendix C

Even more troubling, Respondents contend, is that many company types for likely heavy consumers of bearings whose SIC code equivalents do appear on Ostberg's two "full" SIC code lists had only one listing in the Dun & Bradstreet sample list. RIB 179. Thus, while such companies were apparently included in the "universe" of the SKF USA survey, Respondents contend, they were severely under-represented in the Dun & Bradstreet sample list that was actually used to conduct interviews. Thus, Respondents argue, the "universe" of bearings purchasers actually surveyed included (1) a high frequency of company types that are not likely bearings purchasers, (2) a low frequency of heavy bearings purchasers, and (3) bearings distributors, but not in sufficient numbers to be representative. *Id.* Consequently, Respondents argue, the Dun & Bradstreet sample list does not reflect the intended universe, and therefore the survey results cannot reasonably be projected to that intended universe. RIB 180-81.

Respondents also question the Ostberg survey's mode of questioning interviewees. RIB 183. Respondents contend that questions can be confusing because of how they are worded. *Id.* In this connection, Respondents argue that the quality control/technical and engineering support/control question violates good questionnaire design procedure for a telephone survey because it is too long and complex. *Id.* Moreover, Respondents argue, the question assumes that quality control and technical and engineering support are material considerations for the interviewees. *Id.* The survey results do not support that assumption, Respondents contend, noting that only a small percentage of interviewees refer to the company as "SKF USA", and most refer to it as "SKF" or some other variation. RIB 184. From this fact, Respondents

infer that "SKF USA" is not strongly imprinted in the minds of these purchasers, and if anyone should be strongly imprinted with that branding, it ought to be the direct purchasers. *Id.*

Respondents also contend that the terminology used in the survey is ambiguous, leading to confusion among interviewees. RIB 184. The authorized/not authorized/ subsidiary question in the Ostberg survey does not offer any explanation of what is intended by such terms, Respondents contend. *Id.* Indeed, Respondents argue, the Ostberg survey does not ask whether the interviewees have any idea of the differences between a distributor that deals in authorized SKF bearings or unauthorized SKF bearings, leading many interviewees to associate "not authorized" with something wrong or something shady. *Id.* Also, Respondents contend, the construction of the authorized/not authorized/subsidiary question is very unusual in that the interviewer is instructed to repeat the question for the interviewee, which puts the interviewee on the alert and may cause the interviewee to be cautious or defensive. *Id.* With so many possible interpretations (some of which suggest shady activity), no guidance as to the meaning, and an interviewee put on the defensive by the repetition of the question, Respondents argue, it is more likely that an interviewee would say "authorized" than any of the other response choices. RIB 185.

Respondents also argue that the data gathered in the Ostberg survey suffers from inaccurate or incomplete reporting. RIB 185. Respondents note that the survey did not require the interviewer to have the interviewee spell out

the name of the vendor from whom the interviewee last purchased SKF bearings. *Id.* As a result of these reporting errors, Respondents maintain, SKF USA has still not been able to demonstrate positively in the case of five of the distributors classified by SKF USA's attorneys as not authorized that they exist, or if they do, that they sell bearings. *Id.* Also, Respondents argue, the Ostberg survey improperly combines the responses to two questions — what brands were purchased in the last six months and what brands you are aware of — to determine the alleged percentage of "brand awareness" of the SKF brand. RIB 186. Combining responses to two questions to develop a percentage of brand awareness or distinctiveness results in stretches in reporting data and drawing conclusions, Respondents maintain. *Id.*

Respondents also find fault with the Ostberg survey because it does not include a control group, which is highly recommended in research methodology to test similar stimulus in a qualified group of interviewees to determine the difference in response between the two groups. RIB 187. The control question used in the Ostberg survey is not believable, Respondents argue. *Id.* Respondents also argue that the survey is flawed because Ostberg did not conduct a test or pilot study. *Id.* Further, Respondents contend, the Ostberg survey sample lists were not checked to check to see if people included in the first sample were excluded from the additional samples. RIB 188. These and other flaws render the survey unreliable, Respondents argue. *Id.*

Respondents also contend that SKF USA's attorneys improperly participated in the design of the sample and provided substantial input in the development of the

"authorized/unauthorized" tabulation. RIB 188. Thus, Respondents maintain, it cannot be said that Ostberg designed the sample or the questionnaire or tabulated the results independently of SKF USA's attorneys. RIB 188-89.

Finally, Respondents argue that trial testimony shows that consumers are not actually confused, in that Respondents' customers are under no illusion that Respondents are authorized SKF USA distributors. RIB 190. There is no evidence of actual confusion because Respondents are not in the practice of holding themselves out as authorized distributors, Respondents maintain. *Id.*

Commission Investigative Staff's Position

Staff is of the view that SKF USA has not demonstrated the existence of trademark infringement based on an alleged "high level of confusion" in the marketplace generally. SIB 52. Staff believes that although the Ostberg survey is useful on the issue of the fame of the SKF mark, it is not particularly probative on the issue of trademark infringement. SIB 53. According to Staff, when dealing with "gray market" products, the only relevant issue is that of material differences: if a gray market product is materially different, then confusion is presumed, while if there are no material differences, then the product is viewed as genuine and customers cannot be confused about the sale of a genuine product. *Id.* If a trademark holder cannot demonstrate "material differences," Staff contends, then survey evidence regarding consumer confusion is unlikely to demonstrate trademark infringement. SIB 53; SRB 36. According to Staff, the relevant precedents appear to indicate that if there are no

differences between the "authorized" products and the "gray market" products, then the gray market products are "genuine" and there is no infringement involved in selling them. *Id.* Staff also argues that Respondents' criticisms of certain aspects of the Ostberg survey are correct, and that even if the survey is relevant, it does not show consumer confusion. *Id.*

Staff doubts that the Ostberg survey evidence would suffice to establish confusion in any event. SIB 54. In connection with the factors for evaluating survey evidence, Staff is of the view that the Ostberg survey was generally conducted in accordance with standards accepted in the field. SIB 54-55. Thus, Staff argues, it demonstrates the fame and secondary meaning of the SKF marks. SIB 55. However, with respect to the key question relating to who consumers were purchasing from and what services they thought they were entitled to, Staff believes that some of Neal's criticisms were well-founded. *Id.* Specifically, Staff agrees with Neal that the question of whether consumers felt that the bearings they had purchased were subject to SKF's quality control and eligible for SKF's technical and engineering support (Question No. 9 on most surveys) is confusing and does not necessarily generate accurate responses. *Id.*

Discussion, Analysis, and Conclusion

In order to show the likelihood of confusion in the marketplace not only by means of a "material differences" evaluation and anecdotal evidence of "actual confusion," SKF USA has also submitted into evidence a survey prepared by Dr. Henry Ostberg of actual purchasers of SKF bearings

from authorized and unauthorized distributors. The original survey report, CX-0017, went through two re-tabulations, CX-2580 and CX-2673, the first in response to defects raised by Respondents' survey expert, William Neal, and the second in response to a request during trial by the undersigned to check the names on the list of unauthorized distributors against the list of authorized distributors to see if they were similar in any way and to verify that the listed company actually exists. Collectively, the survey report and its re-tabulations are referred to hereafter as the "Ostberg Survey."

The Ostberg Survey was conducted in June-July 2002, and polled a random sampling of 1,003 individuals at companies that were potential purchasers of bearings. Ostberg, Tr. 2668:16-17, 2672:12-11; 2678:18-2679:1; **FF 282**. Of these, 378 individuals were identified as having been involved in the purchase of SKF bearings during the six month period preceding the survey. Ostberg, Tr. 2678:3-11; **FF 283**. These individuals were also asked to identify the company from which they had purchased the SKF bearings, and Ostberg initially determined that 62 of these purchasers had bought bearings from unauthorized distributors. Ostberg, Tr. 2678:12-17, 2683:14-19; **FF 284**. Ostberg determined whether particular companies should be considered authorized or unauthorized by checking with SKF USA's attorneys. Ostberg, Tr. 2683:21-2684:6, 2685:4-20; **FF 285.** The 62 purchasers were later pared down to 51 as a result of the re-tabulations. CX-2673; **FF 286.**

After all re-tabulations, the Ostberg Survey found that of the 51 customers polled who had purchased SKF-brand bearings from unauthorized distributors, 61 percent

(31 purchasers) believed that they had purchased those bearings from an authorized SKF USA distributor, 69 percent (35 purchasers) believed that they were entitled to technical/engineering support by SKF USA, and 53 percent (27 purchasers) believed that the bearings that they had purchased were subject to SKF USA quality control procedures. CX-2673 (Tables 3B, 4B and 9B); **FF 287**. As a control question to eliminate bias and "noise" from the tally, these customers were also asked a clearly false question as to whether they believed that the SKF bearings that they had purchased contained aluminum, making them stronger than other bearings. Ostberg, Tr. 2679:17-22; 2691:17-2692:10; CX-2673 (Table 5B); **FF 288.** The percentage of wrong answers, which after all re-tabulations came to 6 percent (3 purchasers), was subtracted from each of the foregoing percentages in order to obtain a bias-free result. Ostberg, Tr. 2692:7-10; CX-2673; **FF 289.** Consequently, the Ostberg Survey shows that 55 percent of purchasers who bought SKF bearings from unauthorized distributors believed that they had purchased those bearings from an authorized SKF USA distributor, 63 percent believed that they were entitled to technical/engineering support by SKF USA, and 47 percent believed that the bearings that they had purchased were subject to SKF USA quality control procedures. These percentages, according to SKF USA, indicate a significant degree of customer confusion in the market place regarding the questions asked. CIB 187.

Staff has raised a preliminary point that the Ostberg Survey is not probative on the issue of gray market trademark infringement because the only relevant issue in such cases is that of material differences; hence, if a gray market product

is materially different, then confusion is presumed, whereas if there are no material differences, then the product is viewed as genuine and customers cannot be confused about the sale of a genuine product. "It would be counter-intuitive," Staff contends, "to allow Complainant to prove that consumers are confused by differences in the products without proving that the products are, in fact, different." SRB 36.

It is true that the law does not require a trademark holder to present evidence of actual product confusion, either by anecdotal evidence or survey evidence, in order to prove gray market trademark infringement. "[F]ederal courts have routinely granted injunctions in gray goods cases notwithstanding an absence of evidence of actual consumer confusion. [citations omitted]. In such cases, a material difference between goods simultaneously sold in the same market under the same name *creates a presumption of consumer confusion* as a matter of law." *Nestle, supra*, 982 F.2d at 640 (emphasis added); *also see Martin's Herend, supra*, 112 F.3d at 1300 ("[O]ther courts have read *Katzel* and the trademark laws to prohibit a defendant from importing goods that are materially different from those imported by an exclusive distributor or importer, even absent proof that the public associates the goods with the exclusive distributor."). At the same time, however, nothing in the case law *bars* the introduction of such evidence as additional proof to show actual consumer confusion between an authorized good and a gray market good.[32] It is possible for consumers

32. The presumption of consumer confusion by reason of the existence of material differences between an authorized good and a gray market goods is rebuttable. *See Nestle, supra*, 982 F.2d at 641.

(Cont'd)

to be shown through such evidence to have been actually confused by differences that a court would not consider "material." If there is such evidence and it is credible, then a court would be hard-pressed to rule that the authorized product and the gray-market product are "identical" when consumers actually consider certain differences to be important to them. *See* 3 *McCarthy* § 23.13 ("Convincing evidence of significant actual confusion occurring under actual marketplace conditions is the best evidence of a likelihood of confusion."). Accordingly, SKF USA's survey evidence, like its anecdotal evidence of actual confusion discussed earlier herein, must be given consideration.

Respondents' survey expert, Neal, raised several questions about the reliability of the Ostberg Survey. Such issues go to the admissibility as evidence and credibility of the survey, since surveys are a form of multiple hearsay. These issues are evaluated against accepted principles of survey research that have been recognized by the Judicial Conference of the United States and adopted by the Commission as having an impact on a survey's reliability. *See* Judicial Conference of the United States, Handbook of Recommended Procedures for the Trial of Protracted Cases, 25 F.R.D. 351, 427-29 (1960); *Certain Two-Handle Centerset Faucets & Escutcheons, & Components Thereof*, Inv. No. 337-TA-422, U.S.I.T.C. Pub. No. 3332, Unreviewed Initial Determination

---

(Cont'd)

To do so, an alleged infringer must show "by preponderant evidence that the differences are not of the kind that consumers, on average, would likely consider in purchasing the product." *Id.* It stands to reason that anecdotal evidence or survey evidence could also be used for this countervailing purpose.

at 23-24, 2000 WL 381561 (U.S.I.T.C., March 17, 2000) ("*Faucets*"); *Certain Air Impact Wrenches*, Inv. No. 337-TA-311, Unreviewed Initial Determination at 58-59, 88, 1991 WL 788551 (U.S.I.T.C., May 6, 1991).

To be admissible, a survey must adhere to the following eight principles set forth by the Judicial Conference and the Commission:

- That the proper universe was examined;
- That a representative sample was drawn from that universe;
- That the mode of questioning the interviewees was correct;
- That the persons conducting the survey were recognized experts;
- That the data gathered was accurately reported;
- That the sample design, the questionnaire and the interviewing were in accordance with generally accepted standards of objective procedure and statistics in the field of such surveys;
- That the sample design and interviews were conducted independently of the attorneys; and
- That the interviewers, trained in this field, had no knowledge of the litigation or the purposes for which the survey was to be used.

See 25 F.R.D. at 429; *also see Faucets, supra.* "[I]t is only when a survey does comply with all 8 factors that the administrative law judge may give the survey 'some' level of weight." *Faucets, supra.* Furthermore, while questions on admissibility of a survey may be raised by an opposing party and should be considered, the burden of disproving the survey's admissibility should not be placed on that party. *See* 25 F.R.D. at 430.

Of the criticisms of the Ostberg Survey raised by Neal, the most prominent objections concerned the first two principles of examining the proper universe and drawing a representative sample from that universe. In preparing the survey, Ostberg and his staff provided the sample provider, Dun & Bradstreet, with 70 broad categories of company types that were considered to be likely purchasers of bearings. Ostberg, Tr. 2678:18-24; **FF 290.** These broad categories covered over 3,400 different "Standard Industrial Classification" ("SIC") codes. Ostberg, Tr. 2678:18-24; **FF 291**. During discovery, Ostberg produced two SIC code lists, one attached to his preliminary report and a supplemental one produced during his deposition, that Ostberg claimed was the "full list" of SIC codes that Dun & Bradstreet had included in the sample. Ostberg, Tr. 2720:9-12; CX-00 17 at Appendix D; RX-0440; **FF 292**. However, when Neal performed his additional analysis of Ostberg's findings as ordered by the undersigned, Neal found that the Dun & Bradstreet sample of 30,638 firms contained many company types that were not included on the two SIC code lists provided by Ostberg. Neal, Tr. 3622:12-3623:2; RX-8037 at 3-4; **FF 293**. Company types such as general medical and surgical hospitals (with 717 appearances in the sample

list), elementary and secondary schools (with 126 appearances on the sample list), and advertising agencies (with 58 appearances in the sample list) also appeared in the Dun & Bradstreet sample. *See* Neal, Tr. 3622:12-3623:2; RX-8037 at 3-4; **FF 294**. Neal also found that of the 5,651 unique company types included in the two SIC code lists that represent obvious consumers of bearings, 2,396 of them, or 42 percent of the total, were represented in the Dun & Bradstreet sample by only one firm for each company type. Neal, Tr. 3623:3-15; RDX-002; **FF 295**.

The company types in the Dun & Bradstreet sample that Neal contends were not on the two SIC code lists constitute a total of approximately six percent of the 30,638-firm sample. *See* RX-8037 at 3-4; **FF 296.** According to Ostberg, the two lists that he attached to his initial and first supplemental survey reports were provided to him by Dun & Bradstreet, and it was Dun & Bradstreet, not Ostberg or his firm, that under-reported on those lists the true range of SIC codes in the sample. *See* Ostberg, Tr. 2715:13-2717:5; **FF 297**.

The mere fact that Dun & Bradstreet failed to identify a small percentage of the actual sample on its SIC code lists casts no suspicion on the appropriateness of the sample itself. There is no evidence in the record that including this small percentage of firms in the sample biases the ultimate results found in the Ostberg Survey or renders the sample unrepresentative of the relevant market. *See Piper Aircraft Corp. v. Wag-Aero, Inc.*, 741 F.2d 925, 930-31 (7th Cir. 1984) (Survey of slightly broader universe than would be the perfect target group "goes to the weight to be given the survey results,

not the admissibility of the survey"). As for the SIC codes that were reported correctly on Dun & Bradstreet's lists but that generated only one listing per SIC code in the sample, there is also no evidence in the record to show that such a small number of firms for each SIC code biases the ultimate results or renders the sample unrepresentative either. There is no suggestion on the part of Respondents that these firms should have been *excluded* from the sample universe; indeed, as Neal admitted on cross-examination, it would have been a serious flaw in a survey to have an under-represented sample. *See* Neal, Tr. 380916-19; **FF 298.**

With regard to the principles concerning the correct mode of questioning interviewees and the adherence of the sample design, questionnaire and interviewing to generally accepted survey standards, Neal criticized Questions 9 and 10 of the Ostberg Survey. Question 9 asked the key questions directed toward the responding SKF bearing buyer's beliefs about the applicability to the purchased SKF bearing of SKF USA's quality control procedures and technical and engineering support. *See* RX-0434 at SKF 098592. Question 10 asked about the buyer's belief regarding SKF USA's affiliation (or lack thereof) to the company that sold the SKF bearing to the buyer. *See* RX-0434 at SKF 098593.[33]

According to Neal, Question 9 was "basically a loaded question. In other words, the way the question is constructed suggests a response. And it makes some underlying

33. In the version of the survey questionnaire that was used to examine Neal during the trial, there are two questions on page 5 that are labeled "10." Neal's testimony was directed to the second "Question 10" on that page. *See* Neal, Tr. 3647:6-11; RX-434 at 5.

assumptions about what respondent knows or cares about, that is bound to introduce fairly significant error in my opinion." Neal, Tr. 3634:2-8; RX-0434. Specifically, Neal testified, Question 9 implicitly assumes that the interviewee understands what "quality control" means, that "technical and engineering support" might accompany the purchase of an SKF bearing, and what "technical and engineering support" is. *See* Neal, Tr. 3634:11-3635:6; RDX-0006. Neal further criticized Question 9's assumption that the interviewee understands the distinction between "SKF USA" and "SKF" or would associate SKF USA with the "SKF" brand name. *See* Neal, Tr. 3637:6-3638:1; RDX-0006. Neal also opined that Question 9 violated good questionnaire design procedure because it was "too long and too complex" for a response over the telephone. Neal, Tr. 3638:20-3639:12; RDX-0006. Finally, Neal observed that the reference in Question 9 to "the SKF bearings you purchased the last time you purchased any bearings" does not adequately establish whether the SKF bearings that an interviewee purchased are "authorized" or "unauthorized" SKF bearings, because "there is a distinct possibility that the distributor that these were bought from could have authorized bearings." Neal, Tr. 3646:9-3647:2; RDX-0006.

As for Question 10, Neal criticized its suggestiveness to the interviewee, particularly by the fact that the interviewer is required to repeat the question before eliciting a response and without having first been asked by the interviewee to do so. This practice, according to Neal, alerts the interviewee to be cautious or defensive in giving an answer. *See* Neal, Tr. 3647:12-3648:15. Repeating the question, Neal said, suggests to the interviewee that "unauthorized" sales are

somehow "illegal" or "shady," thereby prompting the interviewee to answer defensively to the unknown interviewer that his or her purchase was an "authorized" one. *See* Neal, Tr. 3649:17-3650:22. Neal also criticized Question 10 as unclear on whether the interviewee has any idea of the difference between a distributor that deals in authorized SKF bearings and one who deals in unauthorized SKF bearings, or whether the interviewee understands what a "subsidiary" is. *See* Neal, Tr. 3648:16-21. According to Neal, it is typical when constructing such questions to ask "Do you know about this?" or "Do you know the difference?" or "Do you have an opinion about . . .?" before asking a substantive question of this kind, which Question 10 does not do. *See* Neal, Tr. 3648:22-3649:3.

As Neal correctly observes, Questions 9 and 10 make certain broad assumptions about what an interviewee understands about the distinction between SKF and SKF USA, SKF USA's "quality control procedures," SKF USA's "technical and engineering support," and the difference between "authorized" and "unauthorized" distributors, without probing the interviewee's actual knowledge on those subjects. Ostberg himself admitted on cross-examination that "it is very difficult to define to somebody what is the meaning of `authorized' or not." Ostberg, Tr. 2744:12-15; **FF 299.** Questions 9 and 10 also are worded in ways that might suggest the desired answer to the interviewee. In addressing such concerns, control questions or control groups are necessary in order to gauge the reliability of a survey. *See National Football League Properties, Inc. v. ProStyle, Inc.*, 57 F.Supp.2d 665, 668 (E.D.Wis. 1999) (one-question survey flawed where no controls used); *Major League Baseball*

Properties, Inc. v. Sed Non Olet Denarius, Ltd., 817 F.Supp. 1103, 1123-24 (S.D.N.Y. 1993) (holding that "both surveys contain a complete lack of controls rendering the data meaningless and having no evidentiary value") ("*Baseball*"), *vacated pursuant to settlement*, 859 F.Supp. 80 (S.D.N.Y. 1994); *see also* 5 *McCarthy* § 32:187 (explaining need for controls to account for "background noise"). Neal acknowledged that either a control group or control questions could be used to serve this purpose. *See* Neal, Tr. 3680:17-3681:8; **FF 300.**

In this case, Question 9 contains what Ostberg claims is a "control question" asking the interviewee the truth or falsehood of the statement, "The SKF bearings you purchased last time contained aluminum, which makes them stronger than other bearings." *See* Ostberg, Tr. 2679:17-22, 2691:17-24; RX-0434 at SKF 098592. The control question yielded a very low percentage (6 percent) of wrong "true" answers, which Ostberg attributes to a low bias for the main parts of Question 9. Ostberg, Tr. 2691:17-24; CX-2673 (Table 5B). Ostberg's methodology of subtracting that percentage from the percentages of the main questions in order to correct for bias and "noise" is a well-recognized technique. *See, e.g., Gillette Company v. Wilkinson Sword, Inc.*, 89 CV 3586 (KMW), 1991 U.S.Dist. LEXIS 21006 at *20-21(S.D.N.Y., January 9, 1991); *Reed-Union Corp. v. Turtle Wax, Inc.*, 77 F.3d 909 (7th Cir.1996) (affirming finding of no infringement where survey found 25% confusion but control found "noise" of 20%).

However, at no point in his testimony did Ostberg explain exactly what this control question "controlled" for in the

responses to the main parts of Question 9. Ostberg did not indicate, for instance, whether or how this "control question" measures the percentage of interviewees answering Question 9 who were reacting properly to the particular stimuli of the main parts as opposed to the percentage of those who would be confused by such questioning no matter what they were asked. *See Baseball, supra*, 817 F.Supp. at 1123.[34] The Ostberg Survey also does not make clear what, if anything, a question about an interviewee's knowledge or lack of knowledge about the aluminum content of SKF bearings has to do with that interviewee's knowledge or lack of knowledge about the applicability of SKF USA's quality control procedures or the availability of SKF USA's technical and engineering support to his or her purchase of SKF bearings. As for Question 10, there is no "control question" whatsoever.

---

34. In *Baseball*, the holder of the "Brooklyn Dodger" trademark submitted survey evidence purporting to show that a high percentage of relevant consumers believed that the defendant "Brooklyn Dodger" restaurant had to obtain authorization from the Los Angeles Dodgers or Major League Baseball to use that name. *Baseball, supra*, 817 F.Supp. at 1122. The survey was found to be flawed, however, because it provided for no controls. *Id.* at 1123. The defendant's expert provided some examples of control questions that might have been used, including questions about a "Brooklyn Bridge" restaurant (to test whether people would expect permission to be obtained from New York City), or a "Brooklyn Yankees" restaurant (alluding incorrectly to the New York Yankees baseball team), or a "Brooklyn Eagles" restaurant (named after a defunct newspaper). *Id.* at 1123 n.13. It is clear from these suggestions that a proper control question would bear a close relationship to the main question being asked, albeit containing misinformation to *see* if an interviewee can discern the difference.

It is true that Neal did not come up with examples of his own of what proper control questions should be used in this circumstance. Neal, Tr. 3707:8-12. However, as observed earlier herein, the burden of proving the reliability of the Ostberg Survey rests with SKF USA. *See* 25 F.R.D. at 430. In the absence of any rational explanation of the relationship between Ostberg's purported "control question" and the main parts of Question 9, the measured "control" percentage, however low, is meaningless, and the absence of any other control for that question, as well as the absence of any control for Question 10, leaves the results for Questions 9 and 10 with little probative weight. *Baseball*, *supra*, 817 F.Supp. at 1123-24 (finding lack of controls to render survey results as "meaningless and having no evidentiary value").

With regard to the principle of accuracy in reporting the data, the SKF Survey left it to the interviewer's discretion as to whether to ask the interviewee to spell out the name of the vendor from whom the interviewee last purchased SKF bearings. Ostberg, Tr. 2772:15-2773:21; RX-0434 at SKF 098593 (instructions for first Question 10); **FF 301**. Ostberg testified that he did not care if interviewers misspelled the names of distributors. Ostberg, Tr. 2773:20-21; **FF 302**. This omission turned out to be problematic for the Survey. For example, Neal noted an instance where the name of a distributor identified by an interviewee and recorded by the interviewer as being located in "Leweyville" was classified by Ostberg as an unauthorized distributor, when in actuality it was an authorized distributor from *Louisville*, Kentucky. *See* Neal, Tr. 3753:25-3754:12; **FF 303**. According to Neal, there were five other firms in the Ostberg Survey that were identified as being among the 51 "unauthorized" distributors,

but their existence was not sufficiently verified by Ostberg and Neal could not locate them or independently verify their existence, much less identify them as being "authorized" or "unauthorized." Neal, Tr. 3754:16-22, 3755:16-21, 3758:16-22; RX-803 1; **FF 304**. The failure of the Ostberg Survey to accurately identify five distributors among the 51 alleged to be "unauthorized" is an error of almost 10 percent in the results. This degree of error is significant, and it was SKF USA's responsibility to correct it, not Respondents'. *See* 25 F.R.D. 430, *supra.*

Finally, with regard to the principle that the sample design and interviews are to be conducted independently of the attorneys, Ostberg and his staff worked with SKF attorneys to identify SIC codes to create the parameters of the sample list. Ostberg, Tr. 2709:15-2710:1, 2711:3-13; RX-8009. They also relied on the SKF attorneys to identify for survey purposes which distributors were considered "authorized" and which were considered "not authorized." Ostberg, Tr. 2685:5-20; **FF 305**. They also relied on SKF counsel to decide on how to run the first re-tabulation of the survey. Ostberg, Tr. 2787:14-2788:2; **FF 306.**

These facts indicate a high degree of involvement on the part of SKF's attorneys not only in the design of the Ostberg Survey, but in its conduct. Noted trademark authority J.T. McCarthy has commented that the mere fact that attorneys are involved in designing the questions to be asked is not a fair criticism of a survey. "Attorney cooperation with the survey professional in designing the survey is essential to produce relevant and useable data. If attorneys cannot tell the survey director what the legal issues are and assist the

director in framing relevant questions to be directed at a relevant universe, then irrelevant survey data are bound to be the result." 5 *McCarthy* § 32:166 at 32-267 through 32-268. However, McCarthy has also stated that "[O]ne only relevant limitation is that the attorneys do not *conduct* the survey. Once the relevant universe and relevant questions are defined between the attorneys and the survey director, the attorneys should then step aside and allow the expert survey director to carry out independently the survey in accordance with accepted survey methodology." *Id.* at 32-268 (emphasis in original).[35]

With regard to the Ostberg Survey, it is clear that SKF USA's attorneys not only played a significant role in formulating its questions; they also did not "step aside" to let the survey be conducted independently. It is significant that SKF USA's attorneys, not Ostberg, made the final decisions as to whether a reported vendor of SKF bearings was to be considered "authorized" or "unauthorized." There is no evidence in the record to demonstrate the basis on which they made that key decision in each instance. This lack of independence from the attorneys on Ostberg's part in making such a key survey decision is not viewed favorably when a

35. McCarthy has also noted that the language in the 1960 version of the Judicial Conference Handbook requiring that survey interviews were to be "conducted independently of the attorneys in the case" was deleted by the 1981 version. *See* 5 *McCarthy*, § 32:166 at 32-267 n.2. McCarthy offers no further comment on the reason for the change, however. In any event, it is clear from the Commission's 2000 unreviewed Initial Determination in *Faucets* that the Commission continues to adhere to this criterion in evaluating the admissibility and credibility of surveys. *See Faucets*, *supra*, Unreviewed Initial Determination at 23.

survey is weighed for credibility. *See Faucets*, *supra*, Unreviewed Initial Determination at 34 and 49-50 (Complainants' survey director credited with making "the important decisions in the design, execution, and analysis" of the survey; Respondents' survey accorded little weight because of attorney involvement in choosing sample size, rejecting use of screening questions and suggesting specific language for survey questions). These facts show that the Ostberg Survey does not comport with the principle of independence from attorney influence.

In view of the aforementioned deficiencies in the Ostberg Survey, it is unnecessary to discuss further any of the other objections also raised by Respondents. The Ostberg Survey is entitled to no weight on the issue of whether there exists confusion in the market place on a broader scale due to the sale of SKF branded products by non-authorized entities. There being no other evidence offered by SKF USA on the issue, it is accordingly decided in the negative.

Issue II: Other Causes of Action

Issue II.A: Common Law Trademark Infringement: Whether the importation and/or sale by Respondents of imported bearings and/or packaging displaying the SKF trademarks at issue constitutes common law trademark infringement?

Complainant's Position

According to SKF USA, the SKF trademarks at issue are common law trademarks. CIB 197. To support this contention, SKF USA asserts: (1) that it has the right to use

the SKF trademarks, having registered and used them in commerce; (2) that the marks are non-functional; (3) that the marks have acquired secondary meaning; and (4) that the SKF trademarks have not become generic. CIB 197-198. SKF USA alleges, moreover, that Respondents have infringed the common law SKF trademarks for the same reasons cited in the registered trademark infringement section of this Initial Determination (Issue I.B). Specifically, SKF USA alleges that the material differences between SKF USA authorized and unauthorized SKF bearings listed in Issue I.B give rise to a likelihood of confusion in the minds of consumers. CIB 198. Thus, SKF USA incorporates by reference all of its arguments regarding material difference as applied to registered trademark infringement to support its claim of common law trademark infringement.

Respondents' Position

Respondents concede that the SKF trademarks enjoy common law trademark status. RIB 191. However, Respondents argue that for the reasons given in Issue I.B, no material differences exist between SKF bearings sold by SKF USA authorized and unauthorized distributors. RIB 191-192. Therefore, according to Respondents, common law trademark infringement is not established because there is no evidence to support SKF USA's claim of a likelihood of confusion.

Commission Investigative Staff's Position

Staff is of the opinion that the SKF trademarks at issue are common law trademarks. Staff asserts: (1) that SKF USA has established its right to use the marks by registering the

marks and using them in commerce; (2) that the marks are non-functional; and (3) that while not inherently distinctive, the marks have acquired secondary meaning. SIB 57-59. Staff, moreover, argues that the same evidence that demonstrates infringement of SKF's registered trademarks also demonstrates infringement of the common law SKF trademarks. SIB 59. According to Staff, material differences in a gray market context give rise to the legal presumption of confusion in both registered and common law trademark infringement. Thus, Staff asserts that common law trademark infringement exists wherever registered trademark infringement has been found.

Discussion., Analysis, and Conclusion

In addition to the protections afforded by the Lanham Act, the "right to adopt and use a symbol or a device to distinguish the goods or property made or sold by the person whose mark it is, to the exclusion of use by all other persons, has been long recognized by the common law and the chancery courts of England and of this country." *In re Trademark Cases*, 100 U.S. 82, 92 (1879). Common law trademark infringement is a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *See Certain Electric Power Tools, Battery Cartridges & Battery Chargers*, Inv. No. 337-TA-284, U.S.I.T.C. Pub. No. 2389, Initial Determination (U.S.I.T.C., June 2, 1989) (unreviewed by Commission) ("*Power Tools*").

In order to assert common law trademark rights, a party must show: (1) that they have the right to use the alleged mark; (2) that the alleged mark is not functional; (3) that the

mark is either inherently distinctive or has acquired secondary meaning, and; (4) that the mark has not become generic. *Power Tools*, *supra*, at 200. Once a party perfects its claim to common law trademark rights, to prove infringement, the markholder must show that the allegedly infringing mark is likely to cause confusion. *Id.* at 235; *see also Union National Bank of Texas, Laredo, Texas v. Union National Bank of Texas, Austin, Texas*, 909 F.2d 839, 844 (5th Cir. 1990).

First, a party claiming a mark must establish that he has a right to identify his product by the mark. *Power Tools*, *supra*, at 200. It is well-established that the "first to use a mark in the sale of goods or services is the 'senior user' of the mark and gains common law rights to the mark in the geographic area in which the mark is used." *Allard Enterprises, Inc. v. Advanced Programming Resources, Inc.*, 249 F.3d 564, 572 (6th Cir. 2001) ("Allard"). Thus, prior use by another without abandonment may bar common law trademark rights for subsequent users, although to constitute a bar the prior use must confer trademark rights on the senior user. *Power Tools*, *supra*, at 200. Moreover, because "[o]wnership rights flow only from prior use — either actual or constructive . . . [f]ederal registration of a trademark or service mark cannot create rights and priority over others who have previously used the mark in commerce, but federal registration is *prima facie* evidence of the registrant's ownership and exclusive right to use the mark and constitutes constructive use of the mark." *Allard*, *supra*, 249 F.3d at 572 (citations omitted). Here the evidence of record demonstrates that SKF USA has established a right to identify its product by the SKF trademarks. *See* CPX-299; CPX-300; CPX-301;

CPX-302; CX-2446; **FF 307**. SKF USA both registered the SKF trademarks at issue and uses them in commerce. *See* CPX-299; CPX-300; CPX-301; CPX-302; CX-2446; **FF 308**.

Second, a mark is functional, and thus cannot serve as a trademark, if "it is essential to the use or purpose of the article or if it affects the cost or quality of the article, that is, if exclusive use of the feature would put competitors at a significant non-reputation-related disadvantage." *Qualitex Co. v. Jacobson Products Co.*, 514 U.S. 159, 165 (1995). The SKF trademarks are clearly non-functional given that neither the letter combination "SKF" nor the packaging color schemes are functional. *See* CPX-299; CPX-300; CPX-301; CPX-302; CX-2446; **FF 309**.

Third, "suggestive," "arbitrary," and "fanciful" marks "because their intrinsic nature serves to identify a particular source of a product, are deemed inherently distinctive and are entitled to protection." *Two Pesos Inc. v. Taco Cabana Inc.*, 505 U.S. 763, 768 (1992) ("*Two Pesos*"). Merely "descriptive" marks are not deemed inherently distinctive and thus are entitled to protection only upon a showing of "secondary meaning." *Two Pesos, supra*, 505 U.S. at 769. Secondary meaning occurs when a descriptive mark becomes "distinctive of the applicant's goods in commerce." *Id.*; *see also Certain Air Impact Wrenches*, Inv. No. 337-TA-311, Initial Determination at 52, 1991 WL 788551 (U.S.I.T.C., May 29, 1991) (unreviewed by Commission) ("*Wrenches*") ("Secondary meaning is established if it can be shown that a substantial number of the relevant consumer group for the product at issue associates a mark with a single, though

perhaps anonymous, source."). Secondary meaning may be shown by using direct evidence, including "actual testimony of buyers as to their state of mind and may include professionally conducted consumer surveys," or by using circumstantial evidence such as advertising, length of use, exclusivity of use, and sales volume. *Wrenches*, *supra; see also Power Tools*, *supra*, at 213. Notably, a registered mark under 15 U.S.C. § 1115(a) is interpreted to afford the markholder one of two presumptions: "(1) that her registered trademark is not merely descriptive or generic; or (2) that if descriptive, the mark is accorded secondary meaning." *Packman v. Chicago Tribune Co.*, 267 F.3d 628, 638 (7th Cir. 2001). Here, the evidence of record demonstrates that while not inherently distinctive, the SKF trademarks at issue possess secondary meaning because a substantial number of consumers associate the SKF trademarks at issue with SKF USA. *See* Ostberg, Tr. 2670:6-2671:13; **FF 310**.

Fourth, generic terms, meaning "the name of a particular genus or class of which an individual article or service is but a member," may never enjoy trademark protection. *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 790 (5th Cir. 1983). In addition, pursuant to 15 U.S.C. § 1064, "if at *any* time a registered trademark becomes generic as to a particular product or service, the mark's registration is subject to cancellation." *Id.* There is no evidence of record that the SKF trademarks at issue have become generic.

Lastly, the "likelihood of confusion" inquiry remains "the basic test for both common law trademark infringement and federal statutory trademark infringement." *Dr. Seuss Enterprises, L.P. v. Penguin Books USA, Inc.*, 109 F.3d 1394,

1403 (9 Cir. 1997); *see also AHP Subsidiary Holding Co. v. Stuart Hale Co.*, 1 F.3d 611, 615 (7th Cir. 1993) ("The linchpin of both common law and federal statutory trademark infringement claims is whether consumers in the relevant market confuse the alleged infringer's mark with the complainant's mark."). In addition, as noted above, the "existence of material differences creates a legal presumption that consumers are likely to be confused as to the source of the gray market product." *Tractors*, Commission Violation Opinion, *supra*, at 6. Thus, unrebutted proof of material differences satisfies the likelihood of confusion element of common law trademark infringement. Accordingly, the finding of registered trademark infringement in Issue I.B of this Initial Determination also gives rise to common law trademark infringement and thus a violation of Section 337 upon a showing of actual or threatened injury.

Issue II.B: False Representation of Source: Whether the importation and/or sale by Respondents of imported bearings and/or packaging displaying the SKF trademarks at issue constitutes false representation of source?

Complainant's Position

According to SKF USA, Respondents' sale and/or importation of gray market SKF bearings violates Section 43(a)(1)(A) of the Lanham Act because it "creates the false impression that SKF USA approves and sponsors the distribution of those bearings in the United States." CIB 199. SKF USA also contends that the same analysis applied in

gray market registered and common law trademark infringement, namely that a presumption of confusion arises from material differences between authorized and unauthorized SKF bearings, applies herein. *Id.* Accordingly, SKF USA claims that where there is registered and common law trademark infringement, there is false representation of source as well.

Respondents' Position

According to Respondents, the proper analysis under Section 43(a)(1)(A) of the Lanham Act is a material difference analysis. RIB 192. Respondents' contend that insofar as SKF USA failed to prove that material differences between SKF bearings sold through authorized and unauthorized channels exist, SKF USA's claim of false representation of source must also fail. RIB 192-93.

Commission Investigative Staff's Position

Staff is of the opinion that a claim of false representation of source "will succeed or fail in tandem with Complainant's claim of trademark infringement." SIB 60. In both cases, according to Staff, the proper test is whether a material difference exists between authorized and unauthorized SKF bearings. SIB 61. Thus, Staff contends that where there is trademark infringement there is also false representation of source.

Appendix C

Discussion. Analysis, and Conclusion

Under the Lanham Act, it is unlawful to use in commerce, in connection with goods or services, any "false or misleading description of fact, or false or misleading representation of fact . . . [which] is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person." 15 U.S.C. § 1125(a)(1)(A); *see Cigarettes*, *supra*, at 41-42. False designation of origin is a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *Cigarettes*, *supra*, at 42.

In the gray market context, violation of 15 U.S.C. § 1125(a)(1)(A), and thus violation of Section 337(a)(1)(A), "turns on the existence *vel non* of material differences between the products of a sort likely to create consumer confusion." *Cigarettes*, *supra*, at 42-43 *(quoting Nestle*, *supra*, 982 F.2d at 640). Also, the "existence of material differences creates a legal presumption that consumers are likely to be confused as to the source of the gray market product." *Tractors*, Commission Violation Opinion, *supra*, at 6.

Therefore, where trademark infringement was found in Issue I.B and Issue II.A, there is also a violation for false designation of source upon a showing of actual or threatened injury.

Appendix C

Issue II.C: False Advertising: Whether the importation and/or sale by Respondents of imported bearings and/or packaging displaying the SKF trademarks at issue constitutes false advertising?

Complainant's Position

According to SKF USA, Respondents' importation and/or sale of gray market SKF bearings violates Section 43(a) of the Lanham Act and its prohibition against "false or misleading description of fact, or false or misleading representation of fact, which . . . in commercial advertising or promotion, misrepresents the nature characteristics, qualities, or geographic origin of . . . goods, services, or commercial activities." CIB 200, *quoting* 15 U.S.C. § 1125(a)(1)(B).

First, SKF USA asserts that Respondents have placed gray market SKF bearings in interstate commerce and that "[i]t follows that advertising involving SKF bearings has been sent out to most, if not all states." CIB 202-203. Second, SKF USA asserts that Respondents have made literally false claims and/or literally true or ambiguous claims that implicitly convey a false impression. As examples of literally false advertisements, SKF USA cites Respondent BL's claims that its SKF bearings are "Factory Fresh," "purchased exclusively through a worldwide network of manufacturers," and that "sizes not shown are on order or can be ordered subject to factory lead times." CIB 204-205. SKF USA argues that these statements mean that BL's SKF bearings are new and recently acquired directly from the manufacturer, both

claims SKF USA disputes. With regard to McGuire, SKF USA contends that its advertisements contain the literally false claim that its wholly-owned subsidiary Triple Phase is an "Electric Motor Quality Bearing Specialist." SKF USA argues that this is literally false because Ian McGuire is the only full-time employee of Triple Phase, and he is not an engineer nor does he have any demonstrative expertise in the electric motor industry. CIB 205. As examples of implicit falsehoods, SKF USA cites BL's claim that it sells its SKF bearings in "Original Factory Boxes." SKF USA asserts that while some of BL's SKF bearings come in original boxes, not all do. CIB 206. With regard to McGuire, SKF USA contends that the literally false claim concerning Triple Phase, *i.e.*, that it is an "Electric Motor Quality Bearing Specialist," also gives the false impression that its bearings are electric motor quality and by extension suggests that it sells JEM-designed bearings, which are the standard SKF bearings used in electric motors. *Id.* SKF USA asserts that Triple Phase has never sold a JEM-designed SKF bearing. *Id.* Lastly, SKF USA contends that all remaining Respondents have engaged in implicitly false advertising by using the SKF trademarks, *e.g.*, by selling SKF bearings in SKF boxes without identifying themselves as unauthorized distributors. CIB 207. Third, SKF USA asserts that Respondents' literal or implicit falsehoods are "material" in that they are likely to influence the purchasing decision of consumers. CIB 208. Specifically, SKF USA contends that Respondent's false advertising impinges on the fame of the SKF trademarks, which is an inherent quality or characteristic of SKF bearings. *Id.* Fourth, SKF USA asserts that with regard to Respondents' literal falsehoods, a violation is established without proof of actual confusion. GIB 209. With regard to implicit falsehoods, SKF

USA admits that it must prove actual confusion. GIB 210. Fifth, SKF USA asserts that Respondents' false advertising "have diverted and threaten to continue to divert sales from SKF USA." GIB 210. SKF USA states that since 1997, Respondents have diverted nearly $[ ] from SKF USA. SKF USA estimates BL's sales over that time to be $[ ] and McGuire's sales over that time to be $[ ] CIB 211.

In sum, SKF USA contends that Respondents' materially false advertisements have diverted significant revenue from SKF USA and SKF USA authorized distributors and have threatened the goodwill amassed by SKF USA.

Respondents' Position

According to Respondents, SKF USA has not met its burden of proof to establish a violation based on false advertising. Respondents contend that their advertisements do not contain any false statements, *e.g.*, that they are authorized distributors of SKF bearings. RIB 195. Respondents argue that they merely use SKF trademarks to describe the genuine SKF goods they offer for sale. *Id.* Moreover, Respondents claim that SKF USA has not proven that Respondents' commercial or promotional representations deceive or are likely to deceive a significant portion of their customers. RIB 196. Respondents point out that SKF USA has not submitted credible survey data to support such a proposition. *Id.* In response to SKF USA specific claims of literally false advertising, Respondents argue that those claims fall into the category of non-actionable "puffery." RRB 120. In any case, Respondents conclude that the alleged

literally or implicitly false statements cited are not material to consumers. RIB 196.

Commission Investigative Staff's Position

Staff is of the opinion that SKF USA failed to prove a violation based on false advertising. SIB 64. Specifically, Staff contends that SKF USA failed to satisfy the confusion or likelihood of confusion element of false advertising. SIB 97. Staff argues that SKF USA did not provide credible survey data to support its claim and therefore did not meet its burden of proof. *Id.*

Discussion, Analysis, and Conclusion

Under the Section 43(a)(1)(B) of the Lanham Act, it is unlawful to use in commerce, in connection with goods or services, any "false or misleading description of fact, or false or misleading representation of fact . . . in commercial advertising . . . [which] misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities." 15 U.S.C. § 1125(a)(1)(B). False advertising is a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *Cigarettes*, *supra*, at 43.

A claim of false advertising requires: "(1) that the defendant made a false statement either about the plaintiffs or its own product; (2) the statement was made in a commercial advertisement or promotion; (3) the statement actually deceived or has the tendency to deceive a substantial segment of its audience; (4) the deception is material, in that

it is likely to influence the purchasing decision; (5) the defendant caused its false statement to enter interstate commerce; and (6) the plaintiff has been or is likely to be injured as a result of the false statement, either by direct diversion of sales from itself to the defendant, or by a lessening of goodwill associated with the plaintiffs product." *Jarrow Formulas, Inc. v. Nutrition Now, Inc.*, 304 F.3d 829, 835 n.4 (9th Cir. 2002); *see also Zenith Electronics Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1348 (Fed. Cir. 1999).

As to the first and second criteria, the "false advertisement may either be one that is literally false on its face, or, alternatively, one that implicitly conveys a false impression or is misleading in context." *Cigarettes, supra*, at 43. In latter cases, "proof that the advertising actually conveyed the implied message and thereby deceived a significant portion of the recipients becomes critical." *Id.* (*quoting United Indus. Corp. v. Clorox Co.*, 140 F.3d 1175, 1182 (8th Cir. 1998)).

Implicit False Claims in Advertisements Attributed to All Respondents

With regard to SKF USA's claims of implicit falsehoods, SKF USA does not provide credible evidence of consumer deception. Instead, SKF USA suggests, allegedly based on the holding in *Cigarettes*, that it need not prove actual consumer deception with respect to implicit falsehoods because "SKF USA places great emphasis on its advertising and promotional material." CIB 210. It is, however, unclear why SKF USA's emphasis on promotion and advertising should lift the burden of proving actual deception as it applies

to implicit falsehoods. In *Cigarettes*, no exception was articulated. In fact, the Administrative Law Judge found no violation because "when making a claim based on misleading implication or context, a party cannot rely on its own intuitive reaction to an advertisement, or on the intuitive reaction of the finder of fact, but must introduce evidence that the relevant recipients of the advertisement find it misleading." *Cigarettes*, *supra*, at 46 (*citing United Industries Corp. v. Clorox Co.*, 140 F.3d 1175, 1182 (8th Cir. 1998) ("*Clorox*")). In the absence of such proof, there is no violation for false advertisements based on implicit falsehoods.

SKF USA only asserts that Respondents BL and McGuire engaged in literally false claims in its advertisements. In contrast to implied falsehoods, SKF USA need not prove actual deception to prevail, although it must satisfy the remaining statutory criteria as interpreted by the courts. *See Clorox*, *supra*, 140 F.3d at 1180 ("If a plaintiff proves that a challenged claim is literally false, a court may grant relief without considering whether the buying public was actually misled; actual consumer confusion need not be proved.").

Literally False Claims in Advertisements Attributed to McGuire

The evidence of record does not support SKF USA's claim that McGuire engages in literally false advertising. Triple Phase is a wholly-owned subsidiary of McGuire and it does incorporate the words "Electric Motor Quality Bearing Specialists" below its name on postcards and price lists. *See* Conley, Tr. 2949:14-2950:10; CX-320; **FF 311**. However,

the phrase is more akin to nonactionable puffery given its vague and subjective tenor. *See Clorox, supra*, 140 F.3d at 1180 ("Many claims will actually fall into a third category, generally known as 'puffery' or 'puffing' . . . exaggerated advertising, blustering, and boasting upon which no reasonable buyer would rely and is not actionable under §§ 43(a)." At worst, the term "specialists" is vague and is not comparable to "false descriptions of specific or absolute characteristics of a product and specific, measurable claims of product superiority based on product testing [that] are not puffery and are actionable." *Clorox, supra*, 140 F.3d at 1180. Moreover, SKF USA fails to establish by any evidence that the advertised claim is material or that SKF USA is in any way injured or threatened with injury as a result of its publication. Accordingly, there is no violation with regard to McGuire.

Literally False Claims in Advertisements Attributed to BL

The evidence of record does not support SKF USA's claim that BL engages in literally false advertising. BL's advertisement includes the claim that its bearings are "Factory Fresh," which SKF USA construes to mean that they are recently acquired directly from the manufacturer. *See* CX-1486. Again, "Factory Fresh" is a non-technical term more akin to "puffery" than an absolute or specific characteristic against which BL should be held. Moreover, the disputed phrase is contained in the following bullet point: "• Bearings Limited stopped dealing in the surplus market years ago. We only buy ***Factory Fresh Bearings***." *See* CX-1486; Magray, Tr. 4983:22-4984:5; **FF 312**. SKF USA admits that the disputed phrase represents BL's attempt to disassociate

itself from distributors of surplus bearings but argues that it fails to do so leaving consumers with the misleading impression that BL's SKF bearings are acquired directly from the manufacturer CIB 204.

The disputed claim, if it has any meaning at all, informs consumers that BL no longer sells surplus bearings. Notably, since SKF USA does not refute the assertion that BL no longer sells surplus bearings, SKF USA has not proven that the claim is literally false. SKF USA further claims that BL's assertion that its bearings are "purchased exclusively through a worldwide network of manufacturers" is false because it means that the bearings come directly from the manufacturer. *See* CX-2727. However, the plain meaning of the disputed phrase, particularly the term "worldwide network of manufacturers," is vague and ambiguous and amounts to no more than puffery. The same can be said for "sizes not shown are on order or can be ordered subject to factory lead times" because no reasonable consumer would rely upon either statement in making a purchasing decision. *See* CX-2062. Furthermore, it is unclear how any of these statements, even if literally false, injure or are likely to injure SKF USA. SKF USA claims that Respondents' activities have diverted sales from SKF USA and threaten to continue to do so while concurrently eroding its amassed goodwill. However, the allegedly false statements attributed to BL never mention SKF USA and instead deal in vague generalities that no reasonable person would ascribe to SKF USA. *See Clorox*, *supra*, 140 F.3d at 1181 ("Commercial claims that are implicit, attenuated, or merely suggestive usually cannot fairly be characterized as literally false."). Accordingly, there is no violation with regard to BL.

In sum, SKF USA has failed to prove that any Respondent has engaged in literally or implicitly false advertising. Accordingly, there is no violation.

Issue II.D: Dilution of the SKF Trademarks

Issue II.D.1: Whether the name-brand recognition of the SKF trademarks establishes the fame of the trademarks in the U.S. market place?

Complainant's Position

According to SKF USA, the SKF trademarks at issue are "famous" marks. CIB 213. Thus, they are eligible for protection from dilution under 43(c)(1) of the Lanham Act. To support its claim, SKF USA first cites consumer survey data demonstrating significant brand awareness. The study was prepared by Dr. Henry Ostberg, *see* Section II.B.13, *supra*, and consisted of a nationwide telephone survey. CIB 214. Of the 824 respondents who were asked what makes or brands of bearings they were aware of, 48% mentioned SKF. *Id.* SKF was mentioned twice as often as the second most frequently cited brand. *Id.* Second, SKF USA cites testimony at trial characterizing the SKF trademarks as the "Cadillac or Lexus of the bearing industry" and as "top of the line." CIB 214-215. Third, SKF USA cites testimony at trial and documentary evidence that SKF USA heavily publicizes the SKF trademarks. For example, SKF USA spent nearly $[ ] million from 1998 to 2001 on advertising and marketing, including catalogs, brochures, signs, distribution of promotional items, trade show displays, and print advertisements in trade and consumer magazines. CIB 215.

Fourth, SKF USA cites the fact that the SKF trademarks at issue are federally registered, that the SKF word marks have been in use since 1907, and that the SKF design marks have been in use since 1989. *Id.* The SKF word marks appear on all bearings sold by SKF USA in the United States and the design marks appear on a large portion of the packaging in which those bearings are sold. CIB 216.

Respondents' Position

Respondents concede that the SKF trademarks at issue are "well-known" marks. However, Respondents assert that the Ostberg consumer survey is unreliable for the reasons stated in Section II.B.13, *supra*, and thus cannot be relied upon to prove the fame of the SKF trademarks.

Commission Investigative Staff's Position

Staff is of the opinion that the SKF trademarks at issue are "famous" marks. Staff argues that the evidence adduced by SKF USA satisfies the statutory criteria set out in Section 43(c)(1) of the Lanham Act. According to Staff, (1) the SKF trademarks have acquired distinctiveness and secondary meaning; (2) the SKF trademarks have been used in connection with bearings for many years; (3) the SKF trademarks are federally registered; (4) the SKF trademarks are publicized; (5) the SKF trademarks are used nationwide; (6) the SKF trademarks are highly recognized by consumers; and (7) the SKF trademarks are incontestable. SIB 66-67.

Appendix C

Discussion, Analysis, and Conclusion

Trademark dilution protection under the Lanham Act entitles the owner of a "famous" mark to injunctive relief from another's commercial use of the mark, if such use: (1) occurs after the mark becomes famous, and; (2) causes dilution of the distinctive quality of the famous mark. 15 U.S.C. § 1125(c)(1). Trademark dilution is a form of unfair competition under 19 U.S.C. § 1337(a)(1)(A). *See Cigarettes, supra*, at 37.

Among the Circuits, application of the statute has resulted in two competing tests for dilution. To establish dilution in the First, Second, Fifth, and Sixth Circuits, under the *Nabisco* test, "(1) the senior mark must be famous; (2) it must be distinctive; (3) the junior use must be a commercial use in commerce; (4) it must begin after the senior mark has become famous; and (5) it must cause dilution of the distinctive quality of the senior mark." *V Secret Catalogue, Inc. v. Moseley*, 259 F.3d 464, 468-469 (6th Cir. 2001) ("V *Secret Catalogue*"), *rev'd*, 123 S. Ct. 1115 (2003) (citations omitted); *see Advantage Rent-A-Car, Inc. v. Enterprise Rent-A-Car, Inc.*, 238 F.3d 378, 380 (5th Cir. 2001); *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 215 (2d Cir. 1999) ("*Nabisco*"); *I.P. Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 47 (1st Cir. 1998). In the Third, Seventh, Eighth, and Ninth Circuits, under the *Panavision* test, the same factors apply, except that there is no separate criterion for distinctiveness. *See Times Mirror Magazines Inc. v. Las Vegas Sports News L.L.C.*, 212 F.3d 157, 167-168 (3d Cir. 2000) ("*Times Mirror*"); *Syndicates Sales, Inc. v. Hampshire Paper Corp.*, 192 F.3d 633, 639-40 (7th Cir. 1999); *Viacom*,

Inc. v. Ingram Enterprises, 141 F.3d 886, 890 n.6 (8th Cir. 1998); *Panavision*, *supra*, 141 F.3d at 1324.

The principal difference between the two prevailing tests is whether a trademark must be both "famous" and "distinctive" to be protectable from dilution. The role of the "distinctiveness" criterion is two-fold: (1) "it is a statutory element . . . [and a] mark cannot qualify for protection unless it is distinctive;" and (2) "the *degree* of distinctiveness of the senior mark has a considerable bearing on the question whether a junior use will have a diluting effect . . . the more distinctiveness the mark possesses, the greater the interest to be protected." *Nabisco*, *supra*, 191 F.3d at 217 (emphasis in original). Contrary opinion holds that there is no statutory requirement for a distinctiveness analysis, separate from the "fame" prong, and that the statute uses distinctiveness merely as a synonym of fame. *Times Mirror*, *supra*, 212 F.3d at 166-168. In the *Cigarettes* investigation, the Administrative Law Judge found that "the distinctive KOOL and LUCKY STRIKE trademarks" were famous. *Cigarettes*, *supra*, at 37. Still, neither the Commission nor the Federal Circuit has expressed a clear preference for either test in Section 337 cases of gray market trademark dilution.[36] Accordingly, the adoption of one of these tests is a matter of first impression. Inasmuch as the *Nabisco* test contains an additional factor that is statutorily required, for the purposes of this Initial Determination, the undersigned adopts the *Nabisco* test.

---

36. In *Cigarettes*, the Administrative Law Judge expressly declined to adopt the *Nabisco* test's dilution prong criteria but not its fame prong criteria. *See Cigarettes*, *supra*, at 39 n.7.

Appendix C

The statute establishes a non-exclusive eight factor test for determining whether a mark is famous and distinctive: (1) the degree of inherent or acquired distinctiveness; (2) the duration and extent of use of the mark in connection with the goods and services with which the mark is used; (3) the duration and extent of advertising and publicity of the mark; (4) the geographical extent of the trading area in which the mark is used; (5) the channels of trade for the goods or services with which the mark is used; (6) the degree of recognition of the mark in the trading areas and channels of trade of the mark's owner and the person against whom the injunction is sought; (7) the nature and extent of use of the same or similar marks by third parties; and (8) whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register. 15 U.S.C. § 1125(c)(1)(A)-(H); *see Certain Luggage Products*, Inv. No. 337-TA-243, U.S.I.T.C. Pub. No. 1969, Initial Determination at 73, 1986 WL 379286 (U.S.I.T.C., December 29, 1986) (holding that "famous" marks are those that are strong and distinctive, a prerequisite for trademark dilution).

Apart from the Ostberg survey, the facts as they pertain to the fame of the SKF trademarks are uncontested. It has already been established in the course of discussing common law trademark infringement, *see* Section ILA, *supra*, that the SKF trademarks at issue, while they are not inherently distinctive, have acquired secondary meaning and, by implication, distinctiveness. It is undisputed that the SKF trademarks have been in use for many years, since 1907 in the case of the SKF word marks and since 1989 in the case of the SKF design marks. *See* CPX-299; CPX-300; CPX-

301; CPX-302; **FF 313**. It is also undisputed that SKF USA has spent [ ] of dollars to publicize the SKF trademarks through various media. *See* CX-867C at SKF 057600; CX-2446 ¶¶ 1, 2, 14; **FF 314**. It is undisputed that the SKF trademarks are used nationwide. *See* Clark, Tr. 1174:3-8; CX-2446 ¶ 14; **FF 315**. Finally, it is undisputed that the SKF trademarks are federally registered. *See* CPX-299; CPX-300; CPX-301; CPX-203; **FF 316**. As for consumer recognition, Respondents concede that the SKF trademarks are "well-known" but contest the methodology employed in the Ostberg survey. However, Respondents' expert explicitly did not contest the results of the Ostberg survey as it applied to brand awareness. *See* Neal, Tr. 3671:17-3672:12; **FF 317**. Moreover, even if the results of the Ostberg survey were thrown out, testimony at trial supports the proposition that consumers are well aware of the SKF trademarks. *See* [ ] Korn, Tr. 1465:1-1466:5; Scala, Tr. 3083:19-3084:1; **FF 318**. In sum, the SKF trademarks meet enough of the statutory criteria to be considered "famous" and "distinctive" marks.

Issue II.D.2: Whether the actions of Respondents tarnish the SKF trademarks in the U.S. marketplace?

Complainant's Position

According to SKF USA, Respondents' sales of unauthorized SKF bearings causes dilution of the SKF trademarks. Specifically, SKF USA contends that Respondents' activities tarnish the SKF trademarks because unauthorized SKF bearings are materially different and/or

inferior to SKF bearings sold through authorized channels. CIB 218. SKF USA first claims that if Respondents' SKF bearings are materially different from authorized SKF bearings, then there is *per* se tarnishment. CIB 218. SKF USA also claims that even without material differences, Respondents still tarnish the SKF trademarks because their sales "lead consumers to negatively associate the SKF trademark with such activity." CIB 219. In support of the latter claim, SKF USA contrasts its own efforts at "projecting a polished and professional image of the SKF name and trademarks to the U.S. public" with Respondents' "unprofessional, low-grade and slapdash mass fliers, mailings, faxes, emails and website pages." *Id.* SKF USA also cites its "significant investments in research and development toward product application in the United States" and its technical and engineering support, warranty protection, and quality control procedures, all of which, according to SKF USA, Respondents lack. CIB 220. In sum, SKF USA contends that these features, even if they are not material differences, enhance the SKF trademarks and, conversely, absent these features, Respondents activities detract from the SKF trademarks.

Respondents' Position

According to Respondents, SKF USA cannot prove dilution without first proving that SKF authorized bearings and unauthorized bearings are materially different. RIB 203. Respondents argue that they sell SKF bearings that are identical to SKF bearings sold through authorized channels. *Id.* Thus in the absence of material differences there can be no dilution, according to Respondents.

Appendix C

Commission Investigative Staff's Position

Staff is of the opinion that a finding of gray market trademark infringement based on material differences gives rise to tarnishment as well. SIB 67. Thus, according to Staff, where SKF USA has demonstrated trademark infringement, there is *per se* dilution.

Discussion, Analysis, and Conclusion

Again, to establish dilution under the *Nabisco* test, "(1) the senior mark must be famous; (2) it must be distinctive; (3) the junior use must be a commercial use in commerce; (4) it must begin after the senior mark has become famous; and (5) it must cause dilution of the distinctive quality of the senior mark." *Nabisco*, *supra*, 191 F.3d at 215. In the previous section, it was determined that the SKF trademarks are "famous" and "distinctive," thus satisfying the first and second criteria. It is conceded elsewhere by Respondents that their use of the SKF trademarks constitutes commercial use in commerce and that this use has continued since the SKF trademarks became famous. This leaves the fifth criterion as the only issue in dispute.

The statute defines dilution as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of competition between the owner of the famous mark and other parties, or likelihood of confusion, mistake, or deception." 15 U.S.C. § 1127; *see Cigarettes*, *supra*, at 37. Dilution may occur by "blurring" or "tarnishment." *See Cigarettes*, *supra*. "Blurring" generally refers to use of the famous mark for

other, typically non-competitive, goods or services so as to endanger the ability of the mark to uniquely identify the good or service for which it became famous. *Id.* (*citing Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316, 1326 n.7 (9th Cir. 1998)). "Tarnishment" refers to use that associates the mark with goods or services of poor quality or of such a nature as to degrade the mark by association. *Id.* (*citing Hormel Foods Corp. v. Jim Henson Productions, Inc.*, 73 F.3d 497, 507 (2d Cir. 1996) ("*Hormel*") ("The *sine qua non* of tarnishment is a finding that plaintiffs mark will suffer negative associations through defendant's use")); *Deere & Co. v. MTD Productions, Inc.*, 41 F.3d 39, 44 (2d Cir. 1994); *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 811 F.2d 26 (1st Cir.), *cert. denied*, 483 U.S. 1013 (1987). In *Ty Inc. v. Perryman*, 306 F.3d 509, 512 (7th Cir. 2002) ("*Ty*"), the court contemplated and rejected a catchall third form of dilution where neither blurring nor tarnishment occurs, but a party "is still taking a free ride on the investment of the trademark owner in the trademark."

With regard to the fifth criterion of the *Nabisco* test, to determine whether dilution exists, the qualities that the tests employed by the Circuits consider, though they "vary in the level of detail they apply[,] . . . are essentially the same." *V Secret Catalogue*, *supra*, 259 F.3d at 471. These factors include: (1) distinctiveness of the mark; (2) similarity of the senior and junior marks; (3) proximity of the products and likelihood of bridging the gap; (4) interrelationship among the distinctiveness of the senior mark, the similarity of the junior mark, and the proximity of the products; (5) shared consumers and geographical limitations; (6) sophistication of consumers; (7) actual confusion; (8) adjectival or referential quality of the junior use; (9) harm to the junior

user and delay by the senior user; and (10) effect of senior's prior laxity in protecting the mark. *See generally Nabisco*, *supra*, 191 F.3d at 217-222.

First, it should be noted that in *Cigarettes*, the most recent investigation involving dilution in a gray market context, the Administrative Law Judge declined to follow *Nabisco* citing "a variety of reasons, including first that the *Nabisco* court itself acknowledged that the factors considered in any case must depend on its particular facts, and second that the *Nabisco* test is not especially suitable for a gray market goods scenario." *Cigarettes*, *supra*, at 39 n.7. According to SKF USA, the Administrative Law Judge instead applied a material difference analysis, concluding that if material differences existed there must be dilution. Clearly, however, *Cigarettes* does not stand for the proposition that a material difference amounts to *per* se dilution. While a material difference gives rise to the presumption of a likelihood of confusion in the gray market trademark infringement context, it alone does not constitute dilution because the "*sine qua non* of tarnishment is a finding that plaintiff's mark will suffer negative associations through defendant's use." *Hormel*, *supra*, 73 F.3d at 507. It should be remembered that in trademark infringement analysis, as SKF USA rightly argues in earlier sections, neither dilution of the SKF trademarks nor the superiority of authorized SKF bearings over gray market bearings need be proven because they are not relevant issues. The only relevant issue in infringement analysis is whether the junior use gives rise to a likelihood of confusion. Conversely, with regard to dilution, a likelihood of confusion need not be shown — only dilution must be proved. In this case, while demonstrating one or

more material differences is a pre-requisite for a finding of dilution by tarnishment in the gray market context, it is not a wholesale substitute for proving the required finding under dilution that the trademark *will suffer negative associations through defendant's use.*[37]

This conclusion is consistent with *Cigarettes*. In *Cigarettes*, the Administrative Law Judge made two independent findings: "KOOL and LUCKY STRIKE cigarettes materially differ from their domestic counterparts, *and* I conclude that the sale in the United States of these materially different products under the KOOL and LUCKY STRIKE trademarks at issue cause dilution of these marks." *Cigarettes, supra*, at 40 (emphasis added). Now if SKF USA were correct and material difference equals dilution under *Cigarettes*, the conjunctive "and" would be inapposite and should have read "thus" or "therefore." Moreover, if one conclusion flowed from the other, the Administrative Law Judge would not have made the effort to demonstrate how

37. This is illustrated by a simple hypothetical. One can imagine a junior use that is comparable or even superior to the senior use but which is confusingly similar. Although the senior user may not suffer from a loss of goodwill because the junior use is of such high quality, the senior user may still prevail in an action alleging trademark infringement because of consumer confusion alone. In this scenario, the senior user could not prevail in a suit alleging dilution because no dilution of the mark has occurred. Contrast this with a second scenario where the junior use is shabby and of poor quality but is not likely to be confused with a famous senior use. The senior user will not prevail under a trademark infringement theory because there is no likelihood of confusion. However, there may be dilution, even in the absence of a likelihood of confusion, if the junior use causes consumers to form negative impressions of the famous senior use.

the junior use diluted or was likely to dilute the trademarks at issue. *See Cigarettes*, *supra*, at 40-41. Therefore, the inescapable conclusion is that material difference alone does not amount to dilution. Moreover, while *Nabisco* may not seem appropriate in a gray market context because several of its factors are addressed by a finding of material difference, cognizance of that test avoids much of the latent confusion endemic to this body of law by maintaining a bright line distinction between gray market trademark infringement and dilution.

Second, *Cigarettes*, is overruled in part to the extent that dilution was found based on a "likelihood of dilution." *See Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115, 1118-19 (2003) ("*Moseley*") *compare Cigarettes*, *supra*, at 41. The question before the Supreme Court in *Moseley* was whether actual dilution rather than a likelihood of dilution is required by the Federal Trademark Dilution Act (FTDA). *See Moseley v. V Secret Catalogue, Inc.*, 123 S. Ct. 1115, 1118-19 (2003) ("*Moseley*")[38] The Court held that the FTDA "unambiguously requires a showing of actual dilution, rather than a likelihood of dilution." *Moseley*, *supra*, at 123 S. Ct. at 1124. The Court held that while proof of actual lost sales or profits need not be shown, "the mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution." *Moseley*,

---

38. The opinion was prompted by a split amongst the circuits. *Compare Nabisco*, *supra*, 191 F.3d at 224 (holding that the statute provides for injunctive relief to prevent harm before it occurs), *with Rinling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Dev.*, 170 F.3d 449, 464 (4 Cir. 1999) (holding that proof of actual, consummated harm is required under the statute).

supra, 123 S. Ct. at 1124. *Moseley* also overrules *Nabisco* in part because it explicitly adopted a likelihood of dilution standard. *Nabisco*, *supra*, 191 F.3d at 224-25.

SKF USA contends that *Moseley* is not applicable in situations where the junior and senior marks are identical based on the following: "*at least where the marks at issue are not identical*, the mere fact that consumers mentally associate the junior user's mark with a famous mark is not sufficient to establish actionable dilution." Complainant's Submission Regarding the Relevancy of *Moseley v. V Secret Catalogue, Inc.* at 2 (*quoting Moseley*, *supra*, 123 S. Ct. at 1124) (emphasis added). Such an interpretation could be supported by other language in the Opinion: "It may well be, however, that direct evidence of dilution such as consumer surveys will not be necessary if actual dilution can reliably be proven through circumstantial evidence — *the obvious case is one where the junior and senior marks are identical.*" *Moseley*, *supra*, 123 S. Ct. at 1125 (emphasis added). Thus the Court afforded a lower evidentiary threshold for identical junior and senior marks, but under what factual circumstances? In *Moseley*, the two marks "Victoria's Secret" and "Victor's Little Secret" were similar but not identical. In the present case, the SKF trademarks are identical. That is one difference, though that difference does not diminish SKF USA's argument. The other difference, which is critical to this analysis and the Supreme Court's analysis, is that the alleged dilutor in that case, Moseley, was not accused of selling genuine "Victoria's Secret" trademarked products — it was merely the name of his store that resembled the "Victoria's Secret" trademark. In this case, it is accepted that Respondents sell genuine, albeit unauthorized, SKF bearings.

Accordingly, there is a basic factual difference between *Moseley* and the present case that calls into question SKF USA's analysis of *Moseley*. It is one thing to argue, as the Supreme Court held, that identical marks used on different kinds of goods, *i.e.*, Kodak film versus Kodak pianos, or non-genuine goods, *i.e*, SKF bearings versus cheap knock-offs carrying the SKF trademark, give rise to a presumption of dilution through blurring and tarnishment. It is another thing entirely to claim, as SKF USA seems to, that there is a presumption of dilution where a party sells genuine products bearing a lawfully affixed trademark. *See Ty*, *supra*, 306 F.3d at 512 (rejecting dilution claim where defendant sold genuine trademarked "Beanie Babies"). In the latter case, there can be no presumption that relieves the complainant of proving actual dilution based on any reading of *Moseley*. A material difference may ripen into actual dilution, but the complainant must prove it. This again is distinct from infringement analysis in the gray market context because there a complainant need not prove injury or dilution but only a likelihood of confusion, which is presumed if material differences exist.[39]

At best, the evidence of record demonstrates that there may be a likelihood of dilution arising from Respondents' sales of SKF bearings. However, there is no evidence of record that Respondents' use of the SKF trademarks actually tarnishes the SKF trademarks. Even assuming that

---

39. Even assuming, *arguendo*, that a likelihood of confusion is synonymous with a likelihood of dilution, as SKF USA argues, there must be evidence of actual dilution in order to prevail under the statute according to *Moseley*. *See Moseley*, *supra*, at 123 S. Ct. at 1124.

Appendix C

Respondents employ "unprofessional, low-grade and slapdash mass fliers, mailings, faxes, emails and website pages," this does not constitute actual dilution. Moreover, there is no presumption of dilution in the first place because while the trademarks at issue are identical, so are the products since SKF USA and Respondents deal in genuine SKF bearings. In sum, SKF USA must prove that Respondents' sales of SKF bearings cause actual dilution of the SKF trademarks. The section in SKF USA's post-hearing brief devoted to injury indeed referred to credible record evidence that Respondents have acquired significant market share in the distribution of SKF bearings at the expense of SKF USA and its authorized distributors. However, this does not constitute dilution by tarnishment because it cannot be "that by virtue of trademark law producers own their aftermarkets and can impede sellers in the aftermarket from marketing the trademarked product." *Ty*, *supra*, 306 F.3d at 513. On the contrary, Respondents' strong sales suggest that SKF bearings are marketed effectively by Respondents and that the SKF trademarks are not tarnished by such sales. In sum, there is no empirical evidence in the record that consumers think any less of the SKF trademarks or that SKF trademarks suffer any negative associations because of Respondents' unauthorized sales. Accordingly, there is no violation.

Appendix C

Issue II.E: Passing Off: Whether Respondents' importation and/or sale of SKF trademarked products constitutes "passing off?"

Complainant's Position

According to SKF USA, it no longer asserts that Respondent BL engaged in passing off and it never asserted that Respondents McGuire, CST, or Bohls engaged in passing off. CIB 221. SKF USA continues to assert passing off against defaulting Respondents Wolters and Seal Pack, and reiterates that settling Respondent Creswell stipulated to passing off. *Id.*

Respondents' Position

According to Respondents, SKF USA failed to provide any evidence that Respondent BL passed off non-SKF bearings as SKF bearings. RIB 204.

Commission Investigative Staff's Position

Staff is of the opinion that the evidence does not establish passing off by Respondent BL. SIB 68.

Discussion, Analysis, and Conclusion

SKF USA no longer claims passing off by Respondent BL or asserts passing off against any remaining non-defaulting Respondents. Accordingly, there is no violation.

Appendix C

Issue III: Domestic Industry: Whether the operations of SKF USA in the United States constitute a domestic industry as required by section 337?

Complainant's Position

According to SKF USA, a domestic industry exists to exploit the SKF trademarks. CIB 222. Specifically, SKF USA contends that through its SKF Bearings business unit it "has made significant investments in facilities, labor and capital in the United States to design, manufacture, market, sell, repair and service authorized SKF bearings and to establish and maintain an extensive national distribution network." CIB 224. SKF USA argues that it has had a manufacturing presence in the United States since 1912 and that it owns and operates plants in five U.S. cities producing bearings displaying the two word marks at issue. CIB 226. Each plant is said to generate between $[ ] and $[ ] million in revenues yearly. *Id.* As of 2001, SKF USA employed [ ] people in the United States and had capital assets worth $[ ] million gross book value. CIB 228-229. Further, SKF USA contends that its Chicago Rawhide division's significant domestic activities contribute to the sale of SKF bearings as well. CIB 233.

Respondent's Position

Respondents concede that a domestic industry exists with respect to the SKF trademarks and products at issue. RIB 209. Moreover, Respondents contend that "SKF USA's Chicago Rawhide division is an integral part of that domestic industry." RIB 210-211.

Appendix C

Commission Investigative Staff's Position

Staff is of the opinion that evidence of "significant investment in plant and equipment and significant employment of labor and capital in the manufacture of products covered by the marks at issue" establishes the existence of an "industry in the United States" by SKF USA for the purposes of both Section 337(a)(l)(A)(i) and Section 337(a)(2). SIB 72.

Discussion, Analysis, and Conclusion

In connection with a complaint based on infringement of a registered trademark, a violation of Section 337 can be found "if an industry in the United States, relating to the articles protected by the . . . trademark . . . concerned, exists or is in the process of being established." 19 U.S.C. § 1337(a)(2). The test for the "existence" of a domestic industry that is required for federally-registered intellectual property rights calls for a lesser showing than the test of "injury" to a domestic industry that is required for other Section 337 grounds such as the unfair acts and methods of competition asserted by SKF USA. *See* H. R. Rep. No. 100-40, pt. I, at 155-57 (1987) (discussing amendment to Section 337 eliminating requirement of injury to domestic industry for intellectual property-based complaints); *Certain Bar Clamps, Bar Clamp Pads, and Related Packaging, Display, and Other Materials*, Inv. No. 337-TA-429, 2001 WL 474337 Initial Determination at 85 (U.S.I.T.C., March 13, 2001), *Initial Determination vacated on other grounds*, Commission Notice, 66 Fed. Reg. 63558-59 (December 7, 2001) (non-intellectual property-based allegation of Section 337

complaint imposes "a requirement beyond the existence of a domestic industry") ("*Bar Clamps*, Initial Determination").

The domestic industry required pursuant to Section 337(a)(2) is that portion of a complainant's activities and facilities in the United States that are devoted to the exploitation of the trademark rights at issue. *See Tractors*, *supra*, Order No. 39 at 2, 1996 WL 965732 (U.S.I.T.C., August 8, 1996), *reconsidered*, Order No. 47, 1996 WL 965489 (U.S.I.T.C., August 21, 1996) and Order No. 48, 1996 WL 965482 (U.S.I.T.C., August 21, 1996) (summary determination finding domestic industry exploiting certain registered trademarks); *Certain Sickle Guards Intended for Use in Mowing Machines*, Inv. No. 337- TA-247, Initial Determination (Feb. 18, 1987), *Certain Vacuum Bottles and Components Thereof*, Inv. No. 337-TA-108, 219 U.S.P.Q. 637 (U.S.I.T.C. 1982); *Certain Airtight Cast Iron Stoves*, Inv. No. 337-TA-69, 215 U.S.P.Q. 963 (U.S.I.T.C. 1980). A domestic industry must be shown for each trademark asserted in the investigation. *See Tractors*, *supra*, Order No. 39 at 5; *also see Certain Chemiluminescent Compositions*, Inv. No. 337-TA-285, Initial Determination at 29 (March 22, 1989) (unreviewed by Commission).

Additionally, Section 337(a)(3) sets forth the following economic criteria for determining the existence of a domestic industry in such investigations:

> an industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the . . . trademark . . . concerned —

> (A) significant investment in plant and equipment;
>
> (B) significant employment of labor or capital; or
>
> (C) substantial investment in its exploitation, including engineering, research and development, or licensing.

19 U.S.C. § 1337(a)(3). As the statute uses the disjunctive term "or," a complainant can demonstrate the existence of a domestic industry by satisfying any one of the three tests set forth in Section 337(a)(3). *See Certain Microlithographic Machines and Components Thereof*, Inv. No. 337-TA-468, Order No. 27 at 4, 2002 WL 1809349 (U.S.I.T.C., July 17, 2002); *also see Certain Plastic Encapsulated Integrated Circuits*, Inv. No. 337-TA-315, U.S.I.T.C. Pub. No. 2574 (November 1992), Initial Determination at 83, 1992 WL 813952 (U.S.I.T.C., October 16, 1991) (unreviewed by Commission in relevant part). Furthermore, the existence of a domestic industry is measured at the time the complaint is filed. *Bally/Midway Mfg. Co. v. U.S. Int'l Trade Comm.*, 714 F.2d 1117, 1122 (Fed. Cir. 1983). The evidence of record demonstrates conclusively, and Respondents concede, that SKF USA maintains a domestic industry devoted to the exploitation of the SKF trademarks at issue. *See* Bergqvist, Tr. 382:21-385:10; CX-610.1C-CX-610.12C; CX-616.2; CX-645C; CX-2446C; **FF 319**. Moreover, by virtue of its significant investment in plant, equipment, labor, and research and development, SKF USA satisfies all three economic criteria listed in Section 337(a)(3). *See* Bergqvist,

Appendix C

Tr. 382:21-385:10; CX-610.1C-CX-610.12C; CX-616.2; CX-645C; CX-2446C; **FF 320**. Accordingly, a domestic industry exists.

Issue IV: Jurisdiction: Whether Respondents have imported and/or sold imported bearings and/or packaging thereof displaying the SKF trademarks, as required by section 337?

Complainant's Position

According to SKF USA, the Commission may properly exercise jurisdiction pursuant to Section 337 because of Respondents' importation and/or sale of imported SKF bearings. CIB 233.

Respondents' Position

Respondents concede that they import and/or sell imported SKF bearings as required by Section 337. RIB 211.

Commission Investigative Staff's Position

Staff is of the opinion that Respondents import, sell after importation, or both import and sell SKF bearings in the United States and thus satisfy the jurisdictional requirements of Section 337. SIB 73.

Appendix C

Discussion, Analysis, and Conclusion

SKF USA alleges that Respondents violate Subsection 337(a)(1)(A) and (C) by importing and/or selling imported SKF bearings carrying the SKF trademarks. Furthermore, SKF USA alleges unfair acts and methods of competition by Respondents including common law trademark infringement, false representation of source, false advertising, and dilution, the threat or effect of which is to destroy or substantially injure an industry in the United States. Respondents concede that they import and/or sell SKF bearings. RIB 211. Accordingly, the Commission has subject matter jurisdiction in this investigation. *See Amgen, Inc. v. U.S. Int'l. Trade Comm.*, 902 F.2d 1532, 1536 (Fed. Cir. 1990). Also, several Respondents answered the Complaint and participated in the investigation, thereby submitting to the personal jurisdiction of the Commission. *See Certain Miniature Hacksaws*, Inv. No. 337-TA-237, Initial Determination (unreviewed by Commission in relevant part) at 4 (October 15, 1986).

Issue V: Affirmative Defenses

Issue V.A: Equitable Estoppel: Whether the affirmative defense of equitable estoppel should serve to bar Complainant's claims?

Respondents' Position

According to Respondents, the defense of equitable estoppel has been met as to all Respondents by reason of SKF USA's misleading conduct that lead the Respondents and others reasonably to infer that SKF USA would not assert

its alleged rights to their detriment. RIB 213-21. Respondents assert that they have imported and sold genuine imported SKF bearings for decades with the knowledge of SKF USA, AB SKF, SKF MUs and SKF authorized distributors. RIB 213. Despite this knowledge of gray market activity, Respondents contend, SKF USA did nothing to suggest to Respondents that they objected to or disapproved of those activities. *Id.*

Respondents recite a long history of what they maintain is misleading conduct on the part of SKF USA toward BL, CST, Bohls and McGuire. RIB 213-21. With regard to BL, its importation of SKF bearings from entities other than SKF USA dates back to the 1960s when the antitrust consent decree was in place, and when that decree was lifted and SKF MUs no longer would sell directly to BL, [ ] RIB 213 and 218-19. SKF USA was well aware of this activity, Respondents maintain, and even purchased gray market SKF bearings from BL. RIB 214 and 220-21; RRB 131-33. Bohls, too, engaged in such activity while it was an authorized SKF USA distributor, but SKF USA did not terminate Bohls' distributorship for that reason, and has never informed Bohls that it should not buy SKF bearings from third-party sources. RIB 215. SKF USA's awareness of CST's sales of gray-market SKF bearings arose in the mid-1990s, Respondents argue, and although CST was notified by SKF USA's General Counsel in 1999 to refrain from representing itself as an authorized SKF USA distributor in its advertising, SKF USA never told CST that it disapproved of CST's gray market activities. RIB 216; RRB 131. Concerning McGuire, Respondents maintain that SKF USA knew of its gray market activities in 1996, but again SKF USA never told McGuire

that it disapproved of those activities, even when SKF USA terminated McGuire as a distributor of SKF USA's MRC products in 2001. RIB 217-18; RRB 132.

Respondents reject SKF USA's contention that their "progressive encroachment" excuses any delay on SKF USA's part in initiating litigation. RRB 133-35. Respondents' increase in SKF bearings sales over a twenty-year period to a point where it now comprises less than one percent of SKF USA's total sales does not render SKF USA's claims more colorable against Respondents than when the facts first came to SKF USA's attention, Respondents argue. RRB 134. Moreover, Respondents maintain, "progressive encroachment" is an excuse for delay only when the nature of an alleged infringing use has changed, which has not happened in this case. RRB 134-35.

Respondents also allege that SKF USA's misleading conduct on which they reasonably relied has resulted in prejudice to them, particularly with respect to their purchases of SKF bearing inventory and storage space, all of which will be lost if relief is granted to SKF USA. RIB 222-26; RRB 135-36.

Complainant's Position

SKF USA maintains that the defense of equitable estoppel does not apply to Respondents. CIB 229. SKF USA contends that it did not engage in misleading conduct because it could not have been aware of certain activities of Respondents that constitute trademark infringement until this investigation was pursued. *Id.* SKF USA maintains that it

was not dilatory in protecting its rights, but rather escalated its response to gray market issues as information about those issues came forward; thus, SKF USA argues, it is not subject to the equitable estoppel or laches defenses because of the "progressive encroachment" by Respondents on SKF USA's trademark rights that excuses its delay and inaction. CIB 230.

SKF USA notes that its efforts to stop the gray market must be viewed in the context of its long history. *See* CIB 231. For 30 years until 1980, SKF USA contends, it was precluded from protecting its trademarks from gray market activity by an antitrust consent decree. *Id.* After that was vacated in 1980, marketing problems in the late 1980s centered on the low domestic prices of bearings caused by increasing volumes of imports from foreign bearing manufacturers, primarily Japanese manufacturers, that forced SKF USA to maintain low prices of its own. CIB 231-32. These activities led to massive antidumping investigations beginning in 1988 against bearing imports from nine countries, naming SKF as one of the respondents. CIB 232. Dumping margins as high as 212 percent were levied against SKF and other importers of bearings as a result. *Id.* Consequently, domestic prices rose 5-10 percent, substantially decreasing dumping margins. *Id.* This climate encouraged gray market sales, SKF USA maintains. Id.

As for individual Respondents, SKF USA was unaware of BL's activities and was not in a position to warn BL to cease its infringing activity until 2001. CIB 235. Nevertheless, SKF USA maintains, the facts show that BL knew of SKF USA's attempts to eliminate the gray market and that SKF USA was attempting to assert its rights. *Id.*

Appendix C

The facts also show, according to SKF USA, that BL is guilty of "unclean hands" in attempting to conceal its activities from SKF USA, and therefore is not entitled to maintain an equitable defense. CRB 186. Concerning McGuire, SKF USA argues that there is no evidence that McGuire was importing SKF product in the 1980s, and did not commence importing SKF bearings until 1997 or 1998. CIB 237. Similarly, CST opened for business in 1991 and did not start selling SKF product until 1993. CIB 242. Bohls did not begin purchasing gray market SKF product until 1995. CIB 243. SKF USA also points to evidence of investigations into gray market activities that it engaged in commencing as early as 1992 in order to show that it did not sit on its hands over this time period. CIB 244-46. Notably, SKF USA petitioned the Department of Commerce to initiate antidumping administrative reviews of certain named gray marketers in order to impose equalizing duties on their imports. *See* CIB 247. SKF USA also initiated action against specific companies in 1998, 1999, 2000 and 2001. CIB 248-50.

Respondents were aware of SKF USA's intolerance for gray market activities, SKF USA contends. CIB 250-56. McGuire was informed in 1994 that SKF USA was attempting to crack down on the gray market. CIB 250. CST received a warning in 1999 that SKF USA would assert its rights. CIB 252. BL was aware of SKF's worldwide attempts to crack down on gray marketers, and knew that SKF USA was attempting to prevent the exportation of SKF bearings to the United States through unauthorized channels. CIB 252-53. Despite receiving word from SKF, BL attempted to continue its activities while avoiding detection by SKF. CIB 255.

These facts, according to SKF USA, negate a fording of equitable estoppel. CIB 262-64.

Commission Investigative Staff's Position

Staff is of the view that CST has proven all of the elements of equitable estoppel. SIB 76-79; SRB 44-46. Specifically, Staff maintains, SKF USA knew of CST's gray market imports but did not file suit against CST or even indicated to CST that it regarded such imports as a violation of its trademark rights. SIB 76 and 77; SRB 44-45. Staff also maintains that CST showed its facilities to SKF USA representatives, communicated with SKF USA officers, including its president and general counsel, and acceded to all of SKF USA's demands in order to continue its business. SIB 76 and 77-78; SRB 44-45. Further, Staff argues, CST literally built its business around the importation of SKF bearings and would be materially prejudiced by the destruction of that business. SIB 76-77 and 78-79; SRB 45-46.

As for BL, however, Staff is of the view that equitable estoppel has not been shown. SIB 79-81; SRB 46-47. Specifically, Staff argues, while the evidence of record shows that SKF USA has been aware of BL's activities for many years and did nothing, it does not show that BL relied on SKF USA's silence. SIB 79-80; SRB 46. BL has been openly importing SKF bearings for many years, Staff points out, but the evidence shows that BL made a decision in 1997 to switch its emphasis not to SKF products but to major brands generally, and it is only because of the availability and reliability of sources of supply for SKF products that SKF

slowly began to predominate. SIB 80; SRB 46-47. BL knew that SKF was cracking down on the gray market, Staff argues, and it went to great lengths to keep its activities secret from SKF. SIB 80. Further, BL has not made a strong showing of prejudice, Staff argues, because BL carries many other bearing lines and has not built its business specifically around SKF. SIB 81; SRB 47.

Respondent Bohls, Staff argues, has also failed to establish all the elements of equitable estoppel. SIB 81; SRB 47-48. According to Staff, SKF was aware of Bohls' activities but took no action. SIB 82; SRB 47. Bohls began buying gray market bearings in 1995, and in 1998 at the latest, SKF USA became aware of Bohls' gray market activities. SIB 81; SRB 47. SKF USA personnel testified that Bohls had been terminated, at least in part, for buying gray market goods, Staff notes, but SKF USA did not tell Bohls to stop buying on the gray market. SIB 81. This failure to act on SKF USA's part, despite clear knowledge of Bohls' activities, Staff argues, is evidence of misleading conduct. *Id.* However, Staff argues, this conduct on the part of SKF USA does not necessarily translate into reliance by Bohls. SIB 81; SRB 48. Staff maintains that Bohls testified that he bought a large inventory of SKF bearings solely because he could get a good price for them, not because of anything that SKF USA did or did not do. SIB 81; SRB 48. Thus, according to Staff, Bohls does not seem to have relied on SKF USA's misleading conduct in its decision to begin stocking gray market bearings. SIB 81; SRB 48. Staff also contends that Bohis has not made a strong showing of prejudice because while Bohls has a significant inventory of SKF bearings, it has relatively few sales of those products (less than $[ ]).

SIB 81; SRB 48. There has been no showing that Bohls bought new buildings and opened new branches in reliance on the relatively small portion of its sales made up of SKF product, and SKF is just one of a number of lines that Bohis carries, Staff maintains. SIB 83. (Bohls, Tr. at 3569-71). Given these relatively weak showings of reliance and prejudice, Staff submits, Bohls has not proven its defense of equitable estoppel. *Id.*

Finally with regard to McGuire, Staff argues that its claim of equitable estoppel is equally unproven. SIB 83; SRB 48-49. According to Staff, McGuire began importing SKF bearings in 1997. SIB 83. Prior to that time, McGuire it held a meeting with SKF USA personnel at which gray market bearings were displayed, but the SKF USA employees clearly did not approve of this and pressed McGuire as to where it had obtained the bearings. *Id.* When SKF USA terminated McGuire as an MRC dealer, Staff argues, MRC made no reference to the "gray market" issue. SIB 84. Thus, Staff argues, although SKF was less than frank with McGuire, the level of misleading conduct appears less than with the other Respondents. SIB 84; SRB 48-49. As for reliance, Staff argues, McGuire has made no showing. SIB 84; SRB 49. None of the McGuire witnesses testified that McGuire began importing SKF bearings because of anything that SKF did, Staff maintains. SIB 84. Further, Staff, argues, McGuire has not made a showing of prejudice because [ ] of McGuire's sales were of SKF bearings. *Id.* Loss of the SKF line will clearly not severely damage or destroy McGuire's business because SKF is merely one of the many brands of bearings that McGuire carries, according to Staff. SIB 84;

SRB 49. Thus, the Staff is of the view that McGuire has not shown that SKF USA's claims are barred by equitable estoppel. SIB 84; SRB 49.

Discussion, Analysis, and Conclusion

As discussed earlier herein, the elements of the equitable estoppel defense are: "(1) misleading conduct, which may include not only statements and action but silence and inaction, leading another to reasonably infer that rights will not be asserted against it; (2) reliance upon this conduct; and (3) due to this reliance, material prejudice if the delayed assertion of such rights is permitted." *Lincoln Logs Ltd. v. Lincoln Pre-Cut Log Homes, Inc., supra*, 971 F.2d at 734; *Certain Garage Door Operators Including Components Thereof, supra*, Order No. 11 at 5.

Misleading Conduct

Respondents' allegations of misleading conduct on SKF USA's part must be viewed in the context of the battle that SKF USA has waged with Respondents and others in the same position in the United States bearings market that has a history spanning well over half a century, as outlined earlier herein in the Statement of the Case. For thirty-years from 1950 to 1980, SKF USA's predecessor, SKF Industries, was forbidden from "exclud[ing] any other person, firm or corporation from any market for bearings, or [determining] the terms or conditions to be imposed upon or required of any other firm, corporation or person for the manufacture, purchase, sale or distribution of bearings . . . ." CX-2703, *U.S. v. SKF Industries, Inc. et al.*, Civil Action No. 9862,

Final Judgment ¶ IV(E) (E.D.Pa., September 29, 1950); FF 321. SKF Industries was also forbidden from "[i]nterfering with or preventing [AB SKF] or its affiliates, or any firm, corporation or person *by threat or institution of infringement suit or otherwise*, from exporting into the United States bearings made by [AB SKF] and its affiliates and marked with the existing ["SKF" word] mark or contained in packages marked with the existing mark." *Id.* ¶ V(G) (emphasis added); **FF 322**. Thus, SKF USA was barred from asserting its intellectual property rights in the SKF trademarks against gray marketers, which were effectively an "authorized" market under the protection of the consent decree.

This scenario gave birth to three of the four gray-market Respondents, BL, Bohls and McGuire. All three purchased and sold SKF bearings during that time period. BL, founded in 1947, imported SKF bearings from sources overseas, [ ] beginning in the 1960s, and imported bearings directly from SKF MUs from 1978 to 1982. Granowitz, Tr. 4800:23-4803:11; **FF 323**. Bohls, founded in 1958, was an SKF USA authorized distributor until 1998. Bohls, Tr. 3441:23-24; 3467:18-20; **FF 324**. For 40 years, until 2001, McGuire also purchased authorized SKF bearings through SKF USA's MRC operations until it was terminated as an MRC distributor in that year. Gelke, Tr. 5145:25-5147:15, 5165:2-7; **FF 325**.

The consent decree was vacated in 1980. *See* CX-2704, *U.S. v. SKF Industries, Inc. et* al., Civil Action No. 9862, Order (E.D.Pa., November 3, 1980); **FF 326**. Upon its vacatur, the heretofore "authorized" market in SKF bearings

became a real "gray market." In the early 1980s, BL was informed that the SKF MUs would no longer sell directly to BL. Granowitz, Tr. 4802:90-4803:11; **FF 327**. Bohls, at that time an authorized SKF USA distributor, and McGuire, at that time an authorized MRC distributor, were apparently unaffected by the change. CST had not yet entered the bearings business. Consistent with these developments, SKF USA issued a bulletin on May 18, 1988 to its distributors from Alan Dinning, at the time SKF USA's Marketing Manager (the "May 18, 1988 Dinning Bulletin"), warning them about the threat of counterfeit bearings, stating that "SKF product continues to be bootlegged into the U.S. through unauthorized sources, a procedure commonly called 'the gray market.'" Moore, Tr. 933:13-25; RX.-5107; **FF 328**.

Despite the cutoff of direct supplies from SKF MUs, however, BL was still able to acquire SKF bearings from [ ] Granowitz, Tr. 4804:1-24; **FF 329**. [**FF 330**.] **FF 331**. Also notwithstanding the cutoff, BL was still able to sell its imported "gray market" SKF [ ] even very recently. Magray, Tr. 3072:14-3075:17, 3080:17-3081:15, 4894:9-4895:6, 4902:11-4905:4, 4907:23-4908:6, 4908:16-4909:1, 4918:21-4919:13; CX-1522C, CX-0129C, RX-3045C, RX-3046C, RX-3047C, RX-3051 C, RX-3052C, RX-3055C, RX-3056C, RX-3057C, RX-3058C; **FF 332**.

The existence and negative impact of the gray market was not lost on SKF USA's sales force in the 1980s and early 1990s. Walter Jones, a former SKF USA sales representative

during that time period, testified at trial that both he and other SKF USA sales representatives were aware of the gray market during the late 1980s and early 1990s, well before Jones became a senior sales representative in 1996. Jones, Tr. 5626:19-5627:20, 5637:19-5639:16; **FF 333**. Jones described how he became aware of it:

> Q. How did you know about the gray market SKF bearings that were being sold prior to 1996?
>
> A. The customers that I called on, you could easily figure out that the pricing that was coming through that was necessary to sell bearings, they had to be from offshore. And, in fact, they would sometimes tell you what country they would come from. So we knew it was a problem and we knew there was a fair amount of them in the marketplace.

Jones, Tr. 5628:21-5629:4; **FF 334**. According to Jones, gray market sales of SKF bearings competed with and hurt his sales of SKF bearings. Jones, Tr. 5643:16-19; 5644:1-6, 5651:24-5652:9; **FF 335**. The statement in the May 18, 1988 Dinning Bulletin (mentioned above) that the gray market's "new threat is even more disturbing than the fact that SKF product continues to be bootlegged into the U.S. through unauthorized sources" accurately reflected Jones' understanding of the gray market at the time. Jones, Tr. 5661:23-5663:1; **FF 336**.

Jones further testified, however, that although other SKF USA sales representatives knew of the gray market, they did

not bring it up with their SKF USA sales managers. Jones, Tr. 5634:12-16; 5634:25-5635:21; **FF 337**. According to Jones, the existence of the gray market was common knowledge at the time, and Jones assumed that SKF USA supervisors were aware of it. Jones, Tr. 5647:1-5649:10, 5650:4-16, 5650:24-5651:23; **FF 338**. He and others on the SKF USA sales force simply did not pay much attention to it; as Jones put it, "my feelings about it was although people knew it was there, I was more intent on selling them current manufactured SKF bearings for which there was a lot of opportunity to go after." Jones, Tr. 5652:25-5653:11; **FF 339**.

There is no evidence in the record that SKF USA has brought any gray market trademark infringement action against any entity from the date that the consent decree was vacated until the complaint was filed in this investigation. Even though trademark infringement was clearly on the minds of those who entered into the consent decree in the 1950s, and even though the vacatur of the consent decree afforded SKF USA an opportunity right then and there to file infringement actions against gray marketers whom SKF USA was well aware of, SKF USA took no action. The reason for this inaction can be found in part in the observation that Jones made on the witness stand, in view of his long standing as an SKF USA sales representative:

> MR. VANDER SCHAAF: Well, I am responding, Your Honor, to your inquiry *where you asked him somebody was taking money away from SKF*, and I think maybe the witness doesn't have that view, since —

> THE WITNESS: No, I did not have that feeling, no.
>
> BY MR. VANDER SCHAAF:
>
> Q. Did not have what view? Did not have what view, sir?
>
> A. *Well, I didn't have the feeling they were, that it was taking money away from SKF if it was made by an SKF company overseas.* And it was very difficult even to determine if it was brought in through the gray market because we did sell SKF manufactured bearings from all over the world.

Jones, Tr. 5656:8-22 (emphasis added); **FF 340**. Also, as Jones observed, the gray market was more or less overlooked by an SKF USA sales force that was focused more on selling current manufactured SKF bearings to its customers. Jones, Tr. 56.52:25-56.53:11. What is more, the fact that SKF authorized distributors, and SKF USA itself, occasionally purchased gray market bearings themselves indicates that the gray market was a ready source of supply if shortages developed. In short, from 1980 until the middle of the 1990s, the gray market was a thorn in the sides of SKF USA's sales force that was nevertheless tolerated by the company, basically because it was a "win-win" situation for everybody except the sales force.

It is from the perspective of this ambivalence toward the gray market on SKF USA's part in the 1980s and 1990s that we now turn to Respondents' allegations of SKF USA's misleading conduct. The Federal Circuit has noted that the misleading conduct element of equitable estoppel requires

"[t]he actor, *who usually must have knowledge of the true facts*," to communicate something in a misleading way, either by words, conduct or silence. *A.C. Aukerman Co. v. R.L. Chaides Const. Co.*, 960 F.2d 1020, 1041 (Fed.Cir. 1992) ("*Aukerman*") (emphasis added). A key aspect of the inquiry, then, is whether SKF USA knew that it had any trademark rights to assert at all against the Respondents and others like them during the time period in question.

SKF USA argues that its corporate knowledge of the gray market was very minimal during the 1980s and early 1990s, and therefore its inaction in bringing this claim should be excused.[40] CIB 232-33. In analyzing this contention, however, it must be remembered that under gray market trademark law, the sale of genuine, *identical* trademarked products, even by unauthorized distributors, is not infringement. It has already been found in this Initial Determination that authorized and unauthorized SKF bearings have no physical differences whatsoever between them, and that the only "material differences" warranting a finding of trademark infringement here are the technical and engineering support

40. SKF USA raises this argument under the theory of "progressive encroachment," which is applicable to lathes and acquiescence defenses but not equitable estoppel. *See Kellogg Co. v. Exxon Corp.*, 209 F.2d 562, 570 (6th Cir. 2002) ("Progressive encroachment is relevant in assessing whether laches or acquiescence may be used to bar a plaintiffs trademark claim"; equitable estoppel not mentioned in opinion). Therefore, it will be discussed further in connection with Respondents' laches and acquiescence defenses. Nevertheless, SKF USA raises the same facts that give rise to its "progressive encroachment" theory to excuse its alleged misleading inaction in connection with Respondents' equitable estoppel defense.

services connected with the sale of such products. Thus, a plausible explanation for SKF USA's silence for over two decades following the vacatur of the consent decree is the notion that its corporate knowledge of gray market activity was "merely general knowledge," as SKF USA characterizes it. CIB at 233. It is equally plausible, however, to explain the silence by the notion that SKF USA did not view itself as having *any* trademark rights to assert against gray marketers selling physically identical products until such support services commenced, or at least that it did not realize that it had trademark rights to assert until someone in SKF USA or SKF USA's counsel finally figured out that such support services can constitute "material differences" giving rise to trademark rights.

The latter explanation has more credibility than the former because the facts contradict the former. Gray market activity was sufficiently high enough on SKF USA's radar screen to warrant the issuance of the Dinning Bulletin on May 18, 1988, referring to gray market activity as "bootlegging." It was known to the sales force, as Jones testified, and the sales force assumed that their supervisors knew about it, too. Accordingly, SKF USA's protestations of lack of knowledge about the gray market are unjustifiable. The question then becomes the following: When was it that SKF USA knew, or should have known, that it had a claim for gray market trademark infringement against the Respondents?

The one material difference that has been found in this Initial Determination — SKF USA's technical and engineering support services — has been offered to its

end-users since as far back as 1980. *See* Senkel, Tr. 5835:10-5836:23; FF 341. SKF USA also established its toll-free technical services telephone "hotline" in 1985. Worden, Tr. 444:14-22; FF 342. Thus, since at least as early as 1980, a "material difference" has existed between SKF USA's authorized SKF bearings and the gray market's otherwise "identical" SKF bearings.[41] The only Respondent that SKF USA could have sued for trademark infringement back then was BL, who is the only identified unauthorized distributor of SKF bearings that was doing business at the time. Bohls and McGuire were authorized distributors at that point, and therefore were licensed to use the SKF trademarks until their distributorships were terminated in 1998 and 2001, respectively. CST did not commence its gray market business until 1991. Townsend, Tr. 2489:3-5; RX-2366; **FF 344**. SKF USA became aware that CST was selling gray-market SKF

41. Respondents have argued that SKF USA's technical support hotline does not constitute a "material difference" because, until mid-2002, hotline personnel accepted and serviced calls from anyone, regardless of where such persons purchased their SKF bearings. More recently, however, calls from end-users have been refused if they purchased SKF bearings from unauthorized distributors listed on a "blacklist" provided to SKF USA's technical support personnel by SKF USA's lawyers. Worden, Tr. 491:19-492:11, 496:15-497:25; **FF343**. While this distinction might serve to render a material difference based *solely* on the hotline as one of only very recent vintage, thereby making the associated trademark right one of only very recent vintage as well, it is not the sole basis for the sole material difference found in this Initial Determination. The technical and engineering support services offered by SKF USA include end-user visits by SKF USA's personnel which, as stated above, have been going on since as early as 1980.

bearings in 1994 at the earliest and 1996 at the latest. *See* Light, Tr. 5762:8-18; Clark, Tr. 1722:9-1723:1; **FF 345**.

Thus, SKF USA has known, or at least should have known, that it has had a cause of action for gray-market trademark infringement against BL for at least 22 years, but it took no action against BL until the complaint in this investigation was filed. Also, SKF USA has known, or at least should have known, that it has had the same cause of action against CST for at least six years, but it took no action against CST until the complaint was filed. This silence on the part of SKF USA, in the face of well-known facts and a legal theory on which to base a case, was misleading, and could have led BL and CST reasonably to infer that SKF USA's trademark rights would not be asserted against them.

As for Bohls and McGuire, their status as authorized distributors of SKF bearings (Bohls through SKF USA directly; McGuire through MRC) shielded them from liability as licensees of the SKF trademarks, and during that time their engagement in gray market trading was no different from what other authorized SKF distributors, and even SKF USA itself, were doing. As a result of those licenses, SKF USA had no cause of action to assert against Bohls and McGuire until their distributorships were terminated in 1998 and 2001, respectively. The evidence does not sufficiently demonstrate that SKF USA's four-year silence after termination in Bohls' case, and one-year silence after termination in McGuire's case, prior to the filing of its complaint in this investigation was so misleading for the purposes of equitable estoppel[42]

42. As will be seen later herein, the outcome is different in the case of the laches defense, where rebuttable presumptions based on state statutes of limitation apply to the delay period.

as to lead Bohls and McGuire reasonably to infer that SKF USA's rights would not be asserted against them if they continued to import and sell gray market SKF bearings once their distributorships were ended.

Reliance

With regard to Respondents' reliance upon any misleading conduct on SKF USA's part, this element "requires more than a belief that one will not be sued; it requires 'taking some action' in substantial reliance on the patentee's misleading conduct. *Certain Sortation Systems, Parts Thereof, and Products Containing Same*, Inv. No. 337-TA-460, Commission Opinion at 16 (U.S.I.T.C., public version February 19, 2003) ("*Sortation Systems*"), *citing Aukerman*, *supra*, 960 F.2d at 1042-43. In this regard, Respondents point to large investments in gray-market SKF bearings and associated capital assets that they made in the mid-1990s time-frame as evidence of their reliance. *See* RIB 222-25.

For example, Bohls invested $1.2 million in SKF bearing inventory that it purchased from CST in 1995, and subsequently invested in a new, 30,000 square-foot warehouse for storage of that inventory. Bohls, Tr. 3441:15-21, 3456:9-18, 3456:19-22, 3460:28; RX-6000-6008; RX-6014; **FF 346**. CST also made significant investments in SKF bearings inventory. CX-2568C; **FF 347**. McGuire began its "Triple Phase" operation in March 2001 to market SKF bearings to the electric motor industry, along with other brands, and incurred approximately $200,000 in salaries and $9,000 in other expenses. Conley, Tr. 2943:25-2948:23; Ian

McGuire, Tr. 2172:19-3173:1, 3205:24-25; Steven McGuire, Tr. 5286:24-5288:4; **FF 348**. BL increased the amount [

] Feldman, Tr. 4670:16-4672:2, 4730:5-14; **FF 349.**

None of these actions by any of the Respondents demonstrates that they were taken "in substantial reliance" on SKF USA's silence regarding its trademark rights. In BL's case, the expansion in its gray market activity was the result of [

] that improved its sales of SKF bearings as well as bearings of other brands. Ansel, Tr. 5812:16-5814:20; Jt. Stip. No. 12, ¶ 17; **FF 350.** The evidence also demonstrates that BL attempted to hide its gray market dealings in SKF bearings from SKF USA.

In May 2001, [

FF 351.

FF 352.

FF 353.

FF 354.

][43]

43. These facts further preclude BL from raising the defense of equitable estoppel by reason of the "clean hands" doctrine. The (Cont'd)

As for reliance on the part of the other Respondents, all of whom entered the gray market for SKF bearings in the mid-1990s, there is no evidence to show that the investments in inventory and associated capital assets that each of them made bear any relationship to SKF USA's silence about its trademark rights. Quite to the contrary, these investments and their timing point more readily to the economic incentive that Respondents had at that time to engage in such activity, which was alluded to earlier in this Initial Determination in the Statement of the Case.

As pointed out in the Statement of the Case section, the intense dumping of cheap, imported foreign bearings on the U.S. market led in 1988 and 1989 to the antidumping investigations of the United States Department of Commerce and this Commission that resulted in the imposition of antidumping duties on such products. *See Anti friction Bearings (Other Than Tapered Roller Bearings) and Parts Thereof From the Federal Republic of Germany, France, Italy, Japan, Romania, Singapore, Sweden, Thailand, and the United Kingdom*, Inv. No. 731-TA-391-399, U.S.I.T.C. Pub. No. 2083, at 2 (U.S.I.T.C., May 1988) ("*Bearings Antidumping Investigation*, Preliminary Report"); *Bearings Antidumping Investigation*, U.S.I.T.C. Pub. No. 2185 (U.S.I.T.C., May 1989) ("*Bearings Antidumping*

(Cont'd)

doctrine of unclean hands will bar an equitable defense if there is "some willful, egregious, or unconscionable conduct or bad faith" on the part of the defendant directly bearing on the availability of the equitable remedy. *See Hot Wax Inc. v. Turtle Wax Inc.*, 191 F.3d 813, 826 (7th Cir. 1999). In this instance, [

].

Investigation, Final Report"). The imported bearings found to have been dumped on the United States market included SKF bearings manufactured by SKF MUs in Germany, France, Italy, Sweden, and the United Kingdom that had significant LTFV margins. *See Bearings Antidumping Investigation*, Final Report at A-22 (Table 2). To give an example, the LTFV margins for SKF ball bearings were found to amount to 132.25 percent for Germany, 66.42 percent for France, 155.99 percent for Italy, 180.00 percent for Sweden, and 61.14 percent for the U.K. *Id.* As a result, since 1989, antidumping tariff duties have been imposed by *the* U.S. Customs Service on such imports at rates sufficiently high enough to offset the LTFV margins. *See* 54 Fed. Reg. 20900-11 (Import Administration, Dep't. of Commerce, May 15, 1989).

The antidumping duty rates that are calculated by Commerce are specific to each manufacturer from each affected country. *See, e.g.*, 54 Fed. Reg. 20900-11, *supra* (Notices setting antidumping duties on bearings from each affected country). Any United States importer of the subject merchandise is subject to the same antidumping duty rate that is assigned to a particular foreign manufacturer of that product in a subject country unless Commerce administratively decides to apply a higher, "All Others" rate to that specific importer. *See, e.g.*, 67 Fed.Reg. 17361, 17366 (April 10, 2002) ("if the exporter is not a firm covered in this review, a prior review, or the less-than-fair-value investigation, but the manufacturer is, the cash-deposit rate will be the rate established for the most recent period for the manufacturer of the merchandise"). The antidumping duty rates are usually adjusted annually by Commerce after it

conducts an administrative review of LTFV margins pursuant to 19 U.S.C. § 1675. *See* 19 C.F.R. § 351.213 (2002). The practical impact of this yearly review is that if the price at which the imported bearings are sold in the United States is found to be higher, the LTFV margin is lower, and the corresponding antidumping duty rate is lower.

Over the decade of the 1990s, SKF regularly applied to Commerce for yearly administrative reviews of the antidumping duty rates applicable to its imported bearings. As a result of these administrative reviews, the annual LTFV margins for SKF bearings during the 1990s were found by Commerce to be much lower than they were determined to be in the original 1989 Commission antidumping investigation. As mentioned earlier in this Initial Determination in the section on the Statement of the Case, the LTFV margin for SKF ball bearings from Germany, for example, dropped from the level of 132.25 percent found in the 1989 *Bearings Antidumping Investigation* Final Report to 4.25 percent as a result of the 1997 Commerce administrative review, 2.26 percent in the 1998 review, 1.23 percent in the 1999 review and 6.39 percent in the 2000 review. *See* 65 Fed. Reg. 49219-23 (August 11, 2000) (2000 review); 64 Fed. Reg. 35590-625 (July 1, 1999) (1999 review); 63 Fed. Reg. 33320-50 (June 18, 1998) (1998 review); 62 Fed. Reg. 54043-85 (October 17, 1997) (1997 review).

As stated earlier, the antidumping regulatory scheme works in such a way that an unauthorized importer of SKF bearings is subject to the same antidumping duty rates that SKF USA pays in the absence of a specific administrative

determination by Commerce that the higher "All Others" rate should apply to that importer. Thus, all but one gray marketer has obtained the same favorable antidumping duty rates that apply to the manufacturer of imported SKF bearings from each affected country that SKF USA has obtained through its administrative review efforts at Commerce.[44] However, there is no obligation on such importers to raise their U.S. prices to the levels that SKF USA maintains as a way to keep the overall LTFV margin for imported SKF bearings low, and the U.S. prices charged by gray-market importers are indeed much lower than those charged by SKF USA. The resulting gap between SKF USA's high U.S. prices and the substantially lower prices that gray marketers can charge for imported SKF-brand bearings as a result of this loophole in the antidumping duty program creates an opportunity for arbitrage that Respondents have exploited to their advantage.

It is more likely than not that the lure of sizable profits from such arbitrage over the past decade has been the chief attraction that Respondents have relied upon to make their substantial investments in gray-market imported SKF bearings during the mid-1990s, not inaction on the part of SKF USA in enforcing its trademark rights. There is no evidence in the record that any of the Respondents changed its conduct in any way in specific response to SKF USA's delay in suing any gray marketer for trademark infringement.

44. In 2002, former Respondent RIRSA was subjected to an administrative review by Commerce, was found to have a high LTFV margin for imported bearings compared to SKF, and was assessed a correspondingly higher antidumping duty rate. *See* 67 Fed. Reg. 17361, 17365 (April 10, 2002).

Appendix C

Staff argues that CST, unlike the other respondents, has demonstrated reliance on SKF USA's inaction. SIB 77-78; SRB 45. In particular, Staff points out that CST's principal, A. Craig Townsend, relied in building his business upon the fact that SKF USA knew about CST's activities for many years but did nothing. Staff further points out that Townsend has at various times spoken with an SKF USA regional manager, SKF USA's general counsel, and the president of SKF USA, about his business, and none of them ever asked him to stop importing SKF bearings. Of particular significance to Staff is the fact that in 1999, SKF USA insisted that Townsend take certain steps to disassociate itself with SKF USA, including posting a disclaimer of any affiliation with SKF USA, but did not ask that he take any action with respect to CST's gray market imports. Townsend willingly complied with all of SKF USA's demands. Thus, according to Staff, "a far more sophisticated businessman than Mr. Townsend would have relied on SKF's failure to act or to even tell him that it objected to his activities." SIB 78.

It is insufficient, however, to prove reliance merely by asserting what Townsend *would* have done if he had been a more sophisticated businessman. Reliance must be proved by actions that Townsend actually did take in substantial reliance upon SKF USA's misleading conduct. *See Sortation Systems*, *supra*, Commission Opinion at 16 ("The 'reliance' element requires more than a belief that one will not be sued; it requires 'taking some action' in substantial reliance on the patentee's misleading conduct."). The facts alluded to by Staff certainly show how SKF USA engaged in misleading conduct toward Townsend over a six-year period, but they do not show what specific actions he took or changes in position he made

in "substantial reliance" upon that conduct. Given the economic perspective of the relevant time period, as discussed above, there are no facts in the record to show that Townsend relied more on SKF USA's conduct, and less on self-interested profit motive, to build his business.

Thus, Respondents have not demonstrated, by a preponderance of the evidence, that any of them satisfies the reliance element of equitable estoppel. *See Sortation Systems*, *supra*, Commission Opinion at 16-17 (no evidence of infringer's change in conduct in response to patentholder's delay in filing suit, therefore no demonstration by a preponderance of evidence that the reliance element of equitable estoppel has been satisfied).

Prejudice

For equitable estoppel to apply, material prejudice must be shown in the form of either "a change of economic position or loss of *evidence.*" *Aukerman*, *supra*, 960 F.2d at 1043. "Economic prejudice may be a change of economic position by the alleged infringer during the period of delay in bringing suit wherein the alleged infringer suffers the loss of monetary investments or incurs damages which likely would have been prevented had the patentee asserted its infringement claim earlier." *Sortation Systems*, *supra*, Commission Opinion at 17.

Here, Respondents point to economic prejudice in their substantial expenditures on inventories of imported gray-market SKF bearings and associated capital assets. The facts regarding these expenditures have already been related earlier

herein in connection with the reliance element of equitable estoppel and need not be repeated.

In *Sortation Systems*, the Commission found in connection with the respondent's equitable estoppel defense that the reliance element had not been met. *See Sortation Systems*, *supra*, Commission Opinion at 16-17. The Commission also held that "[t]he reliance and prejudice elements of the equitable estoppel defense are linked because the material prejudice claimed by [the respondent] stems from actions taken in purported reliance on [the complainant's] misleading conduct." *Id.*, Commission Opinion at 17. Consequently, the Commission decided, "[s]ince we do not find that [the respondent] has shown any change in its conduct based on [the complainant's] conduct or lack of action, we also find that the material prejudice element of the equitable estoppel defense cannot be satisfied." *Id.*

As in *Sortation Systems*, Respondents in this investigation have failed to satisfy the reliance element of their equitable estoppel defense. Accordingly, since Respondents have linked their purported reliance on SKF USA's misleading conduct but have not satisfactorily proved that reliance, they also cannot show prejudice for purposes of equitable estoppel.

Conclusion on Equitable Estoppel

In conclusion, for the reasons set forth above, Respondents have not demonstrated by a preponderance of the evidence of record that the defense of equitable estoppel should be applied in this investigation against SKF USA's case.

Appendix C

Issue V.B: Laches: Whether the affirmative defense of laches should serve to bar Complainant's claims?

Respondents' Position

Respondents contend that the defense of laches applies to bar SKF USA's claims. RIB 227-42. Identifying the same facts that underpin their equitable estoppel defense, Respondents argue that SKF USA knew about, but choose not to assert its trademark rights against the Respondents within a reasonable time. RIB 229 and 230-40. In many instances, Respondents contend, SKF USA had actual knowledge of Respondents' activities yet engaged in misleading or ambiguous conduct, leading the Respondents reasonably to infer that SKF USA would not assert its rights against them. *Id.* In other cases, SKF USA and other SKF Group entities and affiliates transacted business with Respondents over the course of many years, implicitly consenting to and encouraging Respondents' gray market activities. *Id.* Lastly, Respondents argue, SKF USA has been well aware of the SKF gray market industry in the United States for many years, yet neglected to assert or protect its rights in a fair and timely manner. RIB 229-30.

According to Respondents, SKF USA had actual knowledge of Respondent Bohls' and McGuire's "gray market-related" activities since at least 1997. RIB 240. SKF USA has known about CST's importation and gray market activities since at least 1994, Respondents maintain. *Id.* CST's activity preceded SKF USA's complaint by nearly seven years, and as to BL, SKF USA's delay in bringing its

action may be close to 22 years, according to Respondents. RIB 241. These delays, Respondents contend, were inexcusable, and cannot be excused by the contention that SKF USA was entitled to "wait and see" if Respondents became a threat before taking action. *Id.*

Respondents also contend that a presumption of laches applies if a trademark holder delays bringing an infringement claim for a period longer than analogous statutes of limitations, which Respondents contend can be as short as two years and as long as six years. *See* RRB 141-43. SKF USA has waited longer than even the most generous limitations period; Respondents maintain. RRB 143. Respondents also reject SKF USA's excuses for delay, including its claim that it could do nothing during the 30-year period that the antitrust consent decree (mentioned earlier herein) was in force and preoccupation with antidumping litigation. RRB 143-44.

Respondents further contend that they relied upon and were prejudiced by SKF USA's dilatory conduct. RIB 241; RRB 145-47. Moreover, they maintain, in the event that an exclusion order and/or a cease and desist order is issued, Respondents will incur significant losses in their investments in their operations and will be unable to continue with a substantial portion of their business. RIB 241; RRB 145-47.

Complainant's Position

According to SKF USA, laches is not applicable in Section 337 investigations before the Commission. CIB 264-65; CRB 197-99. To the extent that laches is considered as a

defense, SKF USA argues, it should operate to bar recovery only if SKF USA's delay in bringing action against Respondents was prolonged, inexcusable, and operated to Respondent's prejudice. *See* CIB 265-66. In this case, SKF USA contends, SKF USA did not have knowledge of the facts supporting a remedy against BL until recently. CIB 267; CRB 200-01. Therefore, SKF USA argues, it cannot be said that it unreasonably or inexcusably delayed in filing this action. CIB 267; CRB 200-01. Further, SKF USA contends that McGuire, BL and Bohls' "unclean hands" bar their laches defense. CRB 208-09.

SKF USA also argues that BL is not prejudiced because it would have made the same investments, as its investments were not SKF brand specific. CI.B 267; CRB 206-07. As for McGuire, SKF USA maintains, it has only $[ ] worth of SKF product currently in stock, which does not represent its sole line of business. CRB 204. With regard to Bohls, SKF USA contends that its business is not dependent on SKF product nor has it made significant investments in SKF product over any alleged period of delay. CRB 205. As for CST, SKF USA contends that there is no evidence that it changed its position in any manner due to SKF USA's delay. CRB 208.

Commission Investigative Staffs Position

Staff argues that Respondents have not made the requisite showing of extreme circumstances and egregious delay necessary for them to prevail on the affirmative defense of laches. SIB 88. According to Staff, SKF USA filed its complaint in this investigation in 2002, which translates into

only a four to seven year delay in seeking relief against any of the Respondents. *Id.* Staff is of the view that this length of delay, coupled with the likelihood of confusion in gray market cases, is not sufficiently extreme or egregious to justify a finding of laches sufficient to bar prospective relief. SIB 89.

Staff also contends that most of the Respondents have not made a strong showing of prejudice. SIB 89. According to Staff, McGuire's alleged prejudice is the loss of only a small portion of its business, and Bohls stands to lose only a small portion of its business plus its existing inventory, while BL stands to lose a larger portion of business, but still only one of many lines of bearings that it carries. *Id.* CST has made a substantial showing of prejudice, in Staffs view, but CST has not shown the egregious delay or other "plus factors" necessary for laches to bar prospective relief. *Id.* n.1.

Discussion, Analysis, and Conclusion

In *Aukerman, supra,* the Federal Circuit laid out the elements of the laches defense that an accused infringer must prove, as follows:

> 1. the plaintiff delayed filing suit for an unreasonable and inexcusable length of time from the time the plaintiff knew or reasonably should have known of its claim against the defendant, and
>
> 2. the delay operated to the prejudice or injury of the defendant.

Aukerman, *supra*, 960 F.2d at 1032. Unlike equitable estoppel, reliance on the part of the accused infringer is not an element of laches. *See Bridgestone/Firestone Research, Inc. v. Automobile Club de L'Ouest de la France*, 245 F.3d 1359, 1363 (Fed.Cir. 2001).

Also unlike equitable estoppel, the length of time of the delay is significant to laches, in that it must be for "an unreasonable and inexcusable length of time" in order to sustain the defense. *See Aukerman*, *supra*, 960 F.2d at 1041-42. "The length of time which may be deemed unreasonable has no fixed boundaries but rather depends on the circumstances. [citations omitted]. The period of delay is measured from the time the plaintiff knew or reasonably should have known of the defendant's alleged infringing activities to the date of suit." *Aukerman*, *supra*.

In *Aukerman*, the Federal Circuit also held that the Federal six-year statute of limitations for patent infringement suits could be "borrowed" to impose a rebuttable presumption that lathes applies if it extends longer than the limitations period. The rebuttable presumption can be shown "upon proof by the accused infringer that the patentee delayed filing suit for six years after actual or constructive knowledge of the defendant's acts of alleged infringement." *Aukerman*, *supra*, 960 F.2d at 1037. By the same token, in Lanham Act claims, Federal courts have used analogous state statute of limitations periods as a baseline for determining whether a presumption of laches exists. *See, e.g., Nartron Corp. v. STMicroelectronics, Inc.*, 305 F.3d 397, 408 (6th Cir. 2002) (applying three-year Michigan statute of limitations on personal property injury actions); *Nissan Motor Co., Ltd. v.*

BMW (US) Holding Corp., 64 U.S.P.Q.2d 1797, 2002 WL 31426654 (N.D.Ill., Oct 28, 2002) (applying three-year statute of limitations found in Illinois Consumer Fraud and Deceptive Business Practices Act).

The Federal Circuit also held in *Aukerman* that "laches bars relief on a patentee's claim only with respect to damages accrued prior to suit," not for damages or injunctive relief incurred after suit is filed. *Aukerman*, *supra*, 960 F.2d at 1040-41. As a consequence, the Commission has long held that the laches defense does not bar a complainant's patent-based allegations in a Section 337 investigation because the relief afforded by Section 337 is purely injunctive in nature and prospective in effect. *See Certain Personal Watercraft and Components Thereof*, Inv. No. 337-TA-452, Unreviewed Initial Determination (Order No. 54) at 2 (Sept. 19, 2001); *Certain Methods of Making Carbonated Candy Products*, Inv. No. 337-TA-292, Initial Determination (unreviewed in relevant part) at 117-18 (1989); *Certain Unitary Electromagnetic Flowmeters with Sealed Coils*, Inv. No. 337-TA-230, Initial Determination (unreviewed in relevant part) at 73 (1986). This rule was also mentioned in an unreviewed Initial Determination regarding a trademark-based complaint, but only in *dicta*, assuming without deciding "the potential applicability of these defenses," and was rejected on the merits. *See Cigarettes*, *supra*, Unreviewed Initial Determination at 52.

Recently, however, the Federal Circuit has expanded the reach of laches to cover certain post-filing injunctive circumstances. In *Odetics, Inc. v. Storage Technology Corp.*, 185 F.3d 1259 (Fed.Cir. 1999) (rehearing *en banc* denied)

("Odetics"), the Federal Circuit held that the district court in a patent infringement case properly denied the part of a patentholder's request for a permanent injunction blocking the prospective use, service, or repair of machines that the infringer manufactured and sold during the laches period. *Odetics*, *supra*, 185 F.3d at 1272-74. In rejecting the patentholder's contention that so doing would work an impermissible prospective use of the laches defense, the Federal Circuit reasoned as follows:

> Odetics's position, however, construes the scope of laches too narrowly. Laches is firmly rooted in the equitable principle that courts "will not assist one who has slept on his rights." [citation omitted]. A patentee, of course, may sleep upon the right to exclude others from making, using, offering to sell or selling a patented invention. This right is held by the patentee against the public; by inexcusably failing to exercise timely its right to exclude, the patentee, in effect, authorizes the public to infringe — to "make, use, offer to sell, or sell" a patented invention — during the laches period. And it is well-settled that "'an authorized sale of a patented product places that product beyond the reach of the patent.'" [citations omitted]. Likewise, the sale of an infringing product during the laches period is beyond the reach of the patent: the patentee cannot later enjoin the use of a product sold during that time. . . . We conclude, then, that laches will result in the

> patentee abrogating his right to exclude any infringing products sold prior to the filing of the complaint.

Odetics, supra, 185 F.3d at 1273.

This rationale applies equally well to trademark infringement cases. What is more, it readily applies to prospective remedies in Section 337 investigations, particularly where a cease-and-desist order is requested that would bar a respondent's sale of existing inventory acquired prior to the filing of the complaint when a complainant's laches delay was ongoing. If that inventory was purchased by the respondent prior to the filing of a complaint over which the defense of laches applies, the reasoning of *Odetics* should be used to allow that respondent to sell off that remaining inventory because the sale of such products to the respondent was "an authorized sale" by reason of laches, placing it beyond the reach of the prohibitions of the Lanham Act. The rationale underpinning prior Commission decisions barring laches as a defense under Section 337 does not preclude this approach and should not be blindly applied to block it.

Unreasonable, Inexcusable Delay

In the instant case, Respondents argue, and the undersigned agrees, that the presumptive laches periods in this case can be found in analogous statutes of limitations of the domiciliary states of each Respondent. *See Wilson v. Garcia*, 471 U.S. 261, 266-67 (1985) ("When Congress has not established a time limitation for a federal cause of action, the settled practice has been to adopt a local time limitation as federal law if it is not inconsistent with federal law or policy to do so."); *also see, e.g., Lyons Partnership, L.P. v.*

Morris Costumes, Inc., 243 F.3d 789, 796 (4th Cir. 2001) ("While the Lanham Act itself does not provide an express period of limitations for filing a trademark infringement claim, courts generally assume that Congress intended that courts 'borrow' a limitations period for a federal action at law from an analogous state law."); *Hot Wax, Inc. v. Turtle Wax, Inc.*, 191 F.3d 813, 821 (7th Cir. 1999) ("Because the Lanham Act does not contain a statute of limitations, federal courts have referred to analogous state statutes of limitations to determine whether a presumption of laches should apply."). Thus, the relevant laches period for Bohls is two years, based on the Texas statute of limitations for misappropriation and unfair competition cases.[45] The relevant period for McGuire is also two years, based on the Oregon statute of limitations for fraud actions.[46] The relevant laches period for CST is

---

45. *See* Texas Bus. & Corn. Code §§ 17.46(b)(3) (defining acts "causing confusion or misunderstanding as to affiliation, connection, or association with, or certification by, another" as deceptive trade practice acts)), 17.565; Tex. Civ. Prac. & Rem. Code § 16.003(a); *see also First Nat'l Bank of Eagle Pass v. Levine*, 721 S.W.2d 287, 288-89 (Tex. 1986) (holding that Civil Practice and Remedies Code's two-year statute of limitations for trespass should apply, unless specified otherwise by statute, to "any act violative of the right of another through which injury is done to his estate or property," including tortious interference with business relations); *see also Daboub v. Gibbons*, 42 F.3d 285, 290 (5th Cir. 1995) ("The state law limitations period for some of the alleged causes of action, such as misappropriation, unfair competition, and conversion, is two years.").

46. *See* Or. Rev. Stat. § 12.110(1); *Johannsen v. Brown*, 797 F. Supp. 835, 840 (D. Or. 1992) ("[T]he court will apply the statute of limitations for the State of Oregon for the tort of fraud, which is two years.").

four years, based on the California statute of limitations for unfair competition cases[47] As for BL, the relevant laches period is six years, based on the New York statute of limitations for fraud actions.[48]

SKF USA filed its Section 337 complaint on March 11, 2002. *See* Notice of Investigation, 67 Fed. Reg. 18632 (April 16, 2002). SKF USA learned of the gray market activities of Bohls and McGuire around 1997. *See* Light, Tr. 5734:25-5737:2 (SKF USA's knowledge as to Bohls); Gelke, Tr. 5154:9-5155:8 (SKF USA's knowledge as to McGuire); **FF 355**. However, SKF USA's right of action against Bohls and McGuire did not ripen until the termination of their authorized distributorships in 1998 and 2001, respectively, which terminated their licenses to use the "SKF" trademark. Hence, the presumptive two-year laches period applies to Bohls but not to McGuire. Further, as stated earlier in the equitable estoppel section, the latest that SKF USA learned of CST's sales of gray-market SKF bearings was 1996, and CST was never an authorized distributor of SKF USA. Hence, the presumptive four-year laches period applies to CST.

As for BL, as set forth in the equitable estoppel section, its longstanding gray-market activities were well-known to SKF USA for many years. In 1990 and 1991, BL had discussions with [

] *See* Berke, Tr. 2868:2-

---

47. *See* Cal. Bus. & Prof. Code § 17208.

48. *See* N.Y. Civ. Prac. L. & R. § 213(8); *Conopco, Inc. v. Campbell Soup Co.*, 95 F.3d 187, 192 (2d Cir. 1996) (analogizing Lanham Act § 43(a) to fraud cause of action).

2881:7; RX-3060C, RX-3062C, RX-3065C, RX-3066C, RX-3067C, RX-3068C; **FF 356.** Moreover, as described earlier in the estoppel section, [

] BL was never an authorized distributor of SKF USA.[49] Its gray market activities went on well before the presumptive six-year laches period applicable to BL.[50]

Accordingly, a presumption applies to every Respondent except McGuire that SKF USA unreasonably delayed in filing suit for gray market trademark infringement. SKF USA has offered no evidence or argument to rebut this presumption. *See* CIB 266 n.130. Hence, the presumption of unreasonable delay on SKF USA's part ~~as to every~~ Respondent but McGuire is deemed to be conclusive.

---

49. *See* Magray, Tr. 3072:14-3075:17, 3080:17-3081:15, 4894:9-4895:6, 4902:11-4905:4, 4907:23-4908:6, 4908:16-4909:1, 4918:21-4919:13, CX-1522C, CX-0129C, RX-3045C, RX-3046C, RX-3047C, RX-305IC, RX-3052C, RX-3055C, RX-3056C, RX-3057C, RX-3058C

50. As with BL's defense of equitable estoppel, SKF USA asserts that BL is barred from raising the defense of laches by reason of the "clean hands" doctrine. The facts concerning that allegation are no different from those concerning the estoppel allegation, which went to the estoppel element of reliance. In laches, however, reliance is not an element; hence, those facts do not go directly to BL's defense, and do not bar it. *See Hot Wax, Inc. v. Turtle Wax*, Inc., *supra*, 191 F.3d at 826 (unclean hands will bar an equitable defense if there is "some willful, egregious, or unconscionable conduct or bad faith" on the part of the defendant directly bearing on the availability of the equitable remedy).

Appendix C

Prejudice

As for prejudice, there is no linking of this element of laches to any "reliance" showing, as there is in equitable estoppel. Therefore, Respondents' allegations of prejudice stand on their own. In view of the decision here that laches applies in this case, if at all, only to the inventories of SKF bearings that were purchased by each Respondent except McGuire before the complaint was filed in this investigation, it is only prejudice as to those Respondents that must be considered.

It is undisputed that, as of the trial, Bohls had on hand approximately $800,000 worth of SKF inventory. Bohls, Tr. 3464:13-16; **FF 357**. CST also had approximately $[ ] worth of SKF inventory as of the trial. Townsend, Tr. 2403:24-2404:1; CX-2568; **FF 358**. As of April 12, 2002, BL carried on its books a total domestic inventory of [ ] SKF bearings valued at $[ ]. Jt. Stip. No. 12, ¶ 1; **FF 359**. These amounts are substantial expenditures and warrant a finding of prejudice under the laches defense.

Conclusion on Laches

For the foregoing reasons, Respondents Bohls, BL and CST have demonstrated by a preponderance of the evidence of record that the defense of laches should be applied in this investigation against SKF USA's case, but only to the limited extent that any cease and desist order issued against said Respondents should allow them to sell off any inventory of SKF bearings that they acquired on or before March 11, 2002, the date of SKF's filing of the complaint.

As for McGuire, it was an authorized MRC distributor of SKF bearings until the termination of its distributorship by a letter from MRC dated January 10, 2001. Gelke, Tr. 5142:20-5143:5; RX-2090C; **FF 360.** Thus, up to that date, its importation of SKF bearings was a licensed activity, not an infringing activity, and during that time McGuire's engagement in gray market trading was no different from what other authorized distributors, and even SKF USA itself, were doing. As of October 15, 2002, McGuire's SKF inventory totaled [ ]. CX-284C; **FF 361**. Just as SKF USA cannot have an injunctive remedy imposed upon the other Respondents for inventory that they acquired during the laches period, so it is that SKF USA cannot have such a remedy imposed upon McGuire for inventory that it acquired while authorized to do so. Accordingly, any cease and desist order issued against McGuire should allow it to sell off any inventory of SKF bearings that it acquired on or before January 10, 2001, the date on which its MRC distributorship was terminated.

Issue V.C: Acquiescence: Whether the affirmative defense of acquiescence should serve to bar Complainant's claims?

Respondents' Position

According to Respondents, SKF USA engaged in conduct that amounted to, at the very least, an implied assurance that it would not assert its trademark rights to the Respondents' detriment. RIB 242-46. Respondents contend that SKF USA and other affiliated foreign SKF entities had numerous interactions, communications, and dealings with

the Respondents over the past several years that reasonably and foreseeably led Respondents to believe that SKF USA acquiesced in their importation and sales of foreign-manufactured SKF bearings. RIB 243.

Respondents point out that SKF USA was well aware of Bohls' gray market-related activities since at least as early as 1997. RIB 243. In the case of CST, Respondents contend that despite SKF USA's actual knowledge of CST's gray market importation and sales activities, no one from SKF USA notified CST that SKF USA specifically disapproved of or objected to its activities. RIB 244. Further, Respondents contend, CST agreed to amend its advertising materials to meet SKF USA's demands that CST not represent itself as an authorized SKF distributor. *Id.* SKF USA could have easily followed up with a second demand if this action was not enough, Respondents argue, and SKF USA's failure to do so would be reasonably understood as an implicit acquiescence by SKF USA as to CST's importation and sales activities. *Id.*

As for McGuire, an MRC authorized distributor for over thirty years, it received regular visits from SKF USA representatives, Respondents contend. RIB 245. During these visits, the SKF USA representatives could easily observe the SKF bearings stocked on the shelves of McGuire's warehouse, and on at least one occasion (in 1996) MRC and SKF USA officials were shown bearings that McGuire had purchased from an unauthorized source. *Id.* However, Respondents point out, MRC and SKF USA officials never communicated to McGuire that it disapproved of McGuire's sales of SKF bearings obtained from unauthorized sources.

Id. Thus, Respondents argue, it would have been reasonable for McGuire to assume, under the circumstances, that had SKF USA disapproved of its activities, it would have communicated such disapproval to McGuire. *Id.*

Finally, with respect to BL, Respondents maintain that SKF USA and other affiliated foreign SKF entities had numerous interactions, communications, and dealings with BL over the course of at least three decades, the cumulative effect of which led BL to believe that SKF and SKF USA acquiesced in BL's importation and sale of foreign-manufactured SKF bearings in the United States. RIB 244-45.

In sum, Respondents contend, SKF USA's long-established tolerance and its sister companies' active encouragement of Respondents' gray market practices should equitably estop SKF USA from obtaining injunctive relief against those practices now. RIB 246.

Complainant's Position

According to SKF USA, there is no evidence that it consented to the activities of any of the Respondents. CRB 210. In fact, SKF USA contends, several of the Respondents knew that SKF USA would enforce its claims against gray marketers. *Id.* SKF USA argues that BL knew about SKF USA's enforcement activities as early as 1999, when SKF USA was attempting to prevent the exportation of SKF bearings into the United States. *Id.* Acquiescence requires that SKF USA have actively asserted that it would not go after BL, SKF USA contends, and BL has produced no

evidence that it received such assurances. *Id.* In addition, SKF USA points out, the fact that BL operated under such a heavy cloak of secrecy belies any argument that BL believed that SKF USA had acquiesced in its activities. *Id.*

As for Bohls, SKF USA maintains that it is very difficult to draw the conclusion that SKF USA acquiesced in Bohls' gray market activities. CRB 210. According to SKF USA, Light told David Bohls that the purchase and sale of unauthorized SKF product was against SKF's distributor policy. *Id.* Bohls' testimony makes clear that he understood that SKF USA did not approve of it. *Id.* Given this evidence and the lack of evidence that SKF USA ever actively consented to Bohls' gray market activities, SKF USA contends, Bohls has not proven acquiescence. *Id.*

SKF USA argues that McGuire also had warning that SKF USA was attempting to protect its trademark and go after gray marketers. CRB 210. Between 1996 and the institution of this investigation, McGuire has not pointed to any evidence that SKF USA represented to McGuire that it would not pursue its trademark claims. CRB 210-11. According to SKF USA, the most that McGuire has been able to show is that an SKF employee was in the McGuire warehouse where unauthorized product was stored. CRB 211. However, McGuire has not proven that the employee understood that the product on the shelves was not authorized or that he indicated in any manner that SKF USA consented to McGuire's purchasing and selling of this unauthorized product. *Id.* Therefore, McGuire cannot prove acquiescence.

Finally, SKF USA maintains, CST fails to prove acquiescence as well. CRB 211. Although CST points to several interactions that Townsend has had with SKF personnel, none of these contacts indicates any consent on the part of SKF USA to CST's gray market activities, SKF USA maintains. *Id.* Furthermore, SKF USA contends, CST has produced no evidence from its various contacts and conversations that Townsend has had in which he ever received actual, affirmative consent to CST's importation of SKF product. *Id.*

Commission Investigative Staff's Position

The Staff is of the view that the evidence of record does not support the affirmative defense of acquiescence. SIB 90-92. With respect to BL, Staff contends that BL knew or should have been aware that SKF USA was attempting to crack down on the gray market. SIB 90. Indeed, Staff points out, one of their suppliers had been terminated precisely because SKF USA was able to trace its gray market sales to BL. *Id.* BL went to great lengths to keep its suppliers secret from SKF USA. *Id.* Thus, Staff does not believe that BL has established that SKF acquiesced in its gray market sales. SIB 91. With respect to Bohls, Staff contends that it had been buying gray market SKF products since 1995, and although SKF USA had not protested Bohls' sales of gray market products, SKF USA's employee, Light, testified that he had not in any way approved Bohls' activities. *Id.* SKF USA's actions amount at most to a failure to act, Staff maintains; they do not constitute an affirmative assent to Bohls' gray market activities. *Id.*

Appendix C

Concerning CST, Staff argues, Townsend of CST had several conversations with SKF USA executives and SKF also sent a letter to CST insisting that it cease activities that SKF USA characterized as giving the impression that it was an authorized dealer. SIB 91. However, Staff contends, although SKF USA's actions led Townsend to believe that SKF USA did not intend to prevent him from importing gray market goods, thus supporting a defense of equitable estoppel, nowhere in the writings or conversations testified to by Townsend does it appear that SKF USA actually consented to CST's gray market imports. *Id.*

With respect to McGuire, Staff points out that Tim McGuire testified regarding a meeting where gray market SKF bearings were displayed to SKF employees. SIB 92. However, Staff points out, McGuire did not testify that SKF USA employees approved of such gray market bearings. *Id.*

Staff also argues that even if the evidence had demonstrated some degree of acquiescence by SKF USA, the doctrine of "inevitable confusion" indicates that it would not be appropriate to bar SKF's claims based on this alleged acquiescence. The courts have recognized that although acquiescence may bar an infringement claim, that claim may be revived if the other party's use of the mark results in "inevitable confusion." SIB 92, *citing TMT N. Am., Inc. v. Magic Touch GmbH*, 124 F.3d 876, 886 (7th Cir. 1997); *SunAmerica Corp. v. Sun Life Assurance Co.*, 77 F.3d 1325, 1334 (11th Cir.), *cert. denied*, 519 U.S. 822 (1996). In the case of "gray market" goods, Staff argues, confusion is generally held to be inevitable because exactly the same mark is being used on the exactly the same types of products. SIB

92. Staff is therefore of the view that even if SKF USA had actively acquiesced in the sales of the gray market goods, the claim would still be revived by the inevitable confusion resulting from the sale of gray market goods.

Discussion, Analysis, and Conclusion

"The doctrine of acquiescence applies when the trademark owner, by affirmative word or deed, conveys its implied consent to another." *Pappan Enterprises, Inc. v. Hardee's Food Systems, Inc.*, 143 F.3d 800, 804 (3d Cir. 1998). "Although the doctrines of acquiescence and laches, in the context of trademark law, both connote consent by the owner to an infringing use of his mark, acquiescence implies active consent, while laches implies a merely passive consent." *Sara Lee Corp. v. Kayser-Roth Corp.*, 81 F.3d 455, 462 (4th Cir.), *cert. denied*, 519 U.S. 976 (1996). "Although sometimes used indiscriminantly as if they were synonyms, 'laches' and 'acquiescence' are not the same. Laches is a negligent and unintentional failure to protect one's rights while acquiescence is intentional." *Elvis Presley Enterprises, Inc. v. Elvisly Yours, Inc.*, 936 F.2d 889, 894 (6th Cir.1991).

The facts already discussed at length elsewhere herein show that SKF USA's actions, particularly toward BL in the 1980s, have been somewhat ambiguous in terms of protecting its rights in the SKF trademarks against gray market infringement. Indeed, the facts show that there is a great deal of ambiguity in the conduct of the entire SKF Group toward this end, particularly since the activities of gray marketers seem to benefit foreign SKF MUs at the same time that they hurt SKF's U.S. subsidiary. On balance, however, the

evidence shows more passivity — even sufferance — of Respondents' gray market activities on SKF USA's part than active, intentional encouragement. Although the evidence shows that SKF USA and its authorized distributors have called upon Respondents and other ay marketers as a backup source of supply for imported SKF bearings on several occasions,[51] it also shows that SKF USA and others in the SKF Group have tried actively and intentionally to discourage such gray market purchases by warning distributors such as in the May 18,1988 Dinning Bulletin,[52] the 1994 Bowen warning to MRC distributors, including McGuire, against gray market importing,[53] the 1997 Light warning to Bohls,[54] as well as by the termination of the [ ] distributorship for engaging in gray market activity, an occurrence that BL tried to prevent by subterfuge.[55]

Accordingly, Respondents have not demonstrated by a preponderance of the evidence of record that the defense of

---

51. *see, e.g.*, [ ] CX-1522C, CX-0129C, RX-3045C, RX-3046C, RX-3047C, RX-3051C, RX-3052C, RX-3055C, RX-3056C, RX-3057C, RX-3058C.

52. *See* Moore, Tr. 933:13-25; RX-5107.

53. *See* Timothy McGuire, Tr. 3216:22:3228:20; CX-552; **FF 362**.

54. *See* Light, Tr. 5735:10-5737:6.

55. *See* Ansel, Tr. 5815:18-5816:24, 5822:2-7; Berke, Tr. 2833:10-2834:2, 2839:3-15; CX-1620C.

acquiescence should be applied in this investigation against SKI USA's case.

Issue V.D: Unclean Hands: Whether the affirmative defenses of unclean hands should serve to bar Complainant's claims?

Respondent's Position

According to Respondents, SKF USA should be barred under the doctrine of unclean hands from any relief because SKF USA and its agents have transgressed equitable standards of conduct in pursuing this investigation. First, Respondents contend that SKF USA's "long tradition of selling imported bearings, unloading surplus bearings, and failing to exercise quality control over its OEMs and distributors makes unclean hands applicable in this investigation." RIB 247. Second, Respondents claim that SKF USA has waged a "false and misleading negative campaign against the sale of parallel import of bearings in the U.S. industry . . . in which, until at least very recently, the SKF Group participated and derived profit." RIB 249. Third, Respondents allege inequitable conduct by SKF USA and its agents during this litigation. Specifically, SKF USA is accused of so-called "dumpster diving" and witness intimidation. With regard to dumpster diving, Respondents allege that SKF USA committed "repeated and numerous" trespasses upon the private property of Respondents in order to collect information from their trash. RIB 250. As for witness intimidation, Respondents contend that SKF USA threatened Richard Gorsey of Eastern Bearings, an authorized MRC distributor, in a letter sent after Gorsey's name appeared

on a list of proposed witnesses in Respondents' pre-hearing brief. RIB 250-51. According to Respondents, the letter stated that "the MRC distributor agreements do not authorize you to import or purchase from other sources SKF brand bearings." RIB 251. Respondents claim that the purpose of the letter is highly suspect given that it was sent seven days prior to trial and was drafted by trial counsel for SKF USA. *Id.*

Complainant's Position

According to SKF USA, Respondents overstate what little evidence there is that SKF USA has a "long tradition" of selling imported bearings, unloading surplus bearings, and failing to exercise quality control. CRB 212. SKF USA contends that it vigorously enforces its "no gray market" policy as soon as it becomes aware of any infractions by both authorized distributors and OEMs. CRB 212-13. With regard to quality control, SKF USA claims that Respondents provide no evidence that SKF USA is lax in its use of quality controls; and even if Respondents had, SKF USA contends that it has not deceived or misled customers "into believing they were purchasing the 'real thing' when if fact they were not." CRB 214. With regard to SKF USA's alleged "false and misleading negative campaign" against Respondents, SKF USA argues that the sole piece of evidence adduced by Respondents, a document sent out to SKF USA's sales force and distributors "regarding facts about SKF product purchased through unauthorized channels" is in no way false or misleading. *Id.* As for inequitable conduct during litigation, SKF USA contends that the matter of "dumpster diving" was resolved during the course of trial. CRB 215. SKF USA reiterates that

no laws were broken or ethical rules breached by SKF USA or its agents in recovering discoverable material from Respondents' trash. *Id.* With regard to alleged witness intimidation, SKF USA argues that the same letter received by Gorsey was also sent to 100 senior executives of MRC distributors. CRB 216. SKF USA claims that it was merely coincidental that Gorsey was also a proposed witness. *Id.* SKF USA contends that there is no evidence to support Respondents' claim that the Gorsey letter was prompted as a result of Gorsey being designated a proposed witness. CRB 218. As a final matter, SKF USA contends that certain Respondents have unclean hands and are thus barred from asserting equitable defenses. CRB 220.

Commission Investigative Staff's Position

Staff is of the opinion that the evidence of record does not demonstrate that SKF USA should be barred from relief by reason of unclean hands. With regard to dumpster diving, Staff believes that SKF USA's conduct is unrelated to its trademark rights and thus cannot serve as a basis for denying relief under the doctrine of unclean hands. SIB 94. With regard to SKF USA's participation in the gray market, Staff contends that this does not constitute unclean hands because "it is not inequitable for SKF to sell substandard goods under its mark if it so chooses." *Id.* With regard to SKF USA's alleged "false and misleading negative campaign" against Respondents, Staff contends that the evidence of record, namely the letter SKF USA sent to distributors warning against dealing in gray market SKF bearings, does not appear related to the subject of this investigation and thus cannot serve as a basis for denying relief under the doctrine of

unclean hands. *Id.* As for claims of witness intimidation, Staff finds that the timing of the Gorsey letter is suspicious but that the letter was not intimidating because it did not instruct Gorsey not to testify or how to testify. SIB 95. Staff concludes that there is not enough evidence from which to draw the conclusion of witness intimidation. *Id.*

Discussion, Analysis, and Conclusion

The doctrine of unclean hands "closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief, however improper may have been the behavior of the defendant . . . Thus while 'equity does not demand that its suitors shall have led blameless lives,' as to other matters, it does require that they shall have acted fairly and without fraud or deceit as to the controversy in issue." *Certain Track Lighting System Components, Including Plugboxes*, Inv. No. 337-TA-286, Initial Determination at 25, 1988 WL 582866 (U.S.I.T.C., May 4, 1988) (*quoting Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 814 (1945) ("*Precision Instrument*"). In addition, "where a suit in equity concerns the public interest as well as the private interests of the litigants this doctrine assumes even wider and more significant proportions." *Precision Instrument, supra*, 324 U.S. at 998. Generally, "a trademark defendant must demonstrate that the plaintiffs conduct is inequitable and that the conduct relates to the subject matter of its claims." *Japan Telecom, Inc. v. Japan Telecom, America Inc.*, 287 F.3d 866, 870 (9th Cir. 2002) ("*Japan Telecom*") (*quoting Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 847 (9th Cir. 1987)); *see also Sugar Busters LLC v. Brennan*, 177 F.3d 258, 272 (5th Cir. 1999).

Appendix C

This investigation has witnessed many instances by both sides of what is charitably described as objectionable behavior. However, the allegations of unclean hands against SKF USA are simply insufficient to set aside what is otherwise a just remedy. Respondents' claims of unclean hands fall into two categories. First, with respect to the allegations concerning SKF USA's presence in the gray market and SKF USA's "false and misleading negative campaign against the sale of parallel import of bearings in the U.S. industry," this application of the unclean hands doctrine is trademark specific and its analysis is governed by *Japan Telecom.* Second, Respondents' allegations of inequitable conduct during litigation fall into a more general category that is best considered in light of *Precision Instrument.*

In *Japan Telecom*, the court held that to "show that a trademark plaintiff's conduct is inequitable, defendant must show that plaintiff used the trademark to deceive consumers." *Japan Telecom, supra*, 287 F.3d at 870 (*citing Dollar Sys., Inc. v. Avcar Leasing Sys., Inc.*, 890 F.2d 165, 173 (9th Cir. 1989) ("Bad intent is the essence of the defense of unclean hands")). Put simply, the evidence of record in this investigation does not support the conclusion that SKF USA deceived consumers by selling into the gray market. Although it is well-established that SKF USA and SKF USA authorized distributors operate in the gray market, Respondents have failed to prove that SKF USA intended to deceive consumers. At worst, SKF USA is guilty of engaging in gray market activities in order to capture market share away from unauthorized distributors like Respondents. However, this does not mean, *ipso facto*, that SKF USA intended to deceive

customers any more than Respondents' gray market activities are meant to deceive customers. As for Respondents' claim that SKF USA is out to stop gray market sales in the United States, that much is obvious. Beyond that intention, Dennis Clark's letter to SKF USA authorized distributors warning against dealing in gray market SKF bearings, the only evidence cited by Respondents, does not contain any explicitly false statements and is of little probative value. *See* RX-0067; FF 363. Also, insofar as SKF USA authorized distributors induced and continue to invite unauthorized distributors to purchase SKF bearings, whatever inequities exist were addressed within the context of laches, equitable estoppel, and acquiescence.

As for inequitable conduct during litigation, that albeit vague standard was articulated in *Precision Instruments* where the Supreme Court held that the:

> maxim necessarily gives wide range to the equity court's use of discretion in refusing to aid the unclean litigant. It is not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion. Accordingly one's misconduct need not necessarily have been of such a nature as to be punishable as a crime or as to justify legal proceedings of any character. Any willful act concerning the cause of action which rightfully can be said to transgress equitable standards of conduct is sufficient cause for the invocation of the maxim by the chancellor.

Precision Instruments, supra, 324 U.S. at 997-98 (citations omitted). In this investigation, there has been dumpster diving and a curiously timed letter to a proposed witness. Although SKF USA fully admits to rummaging through Respondents' garbage, SKF USA asserts that it was neither illegal nor unethical. Illegal — that is unlikely — and as to whether there was a civil trespass, both the undersigned and the Administrative Law Judge temporarily assigned to the case concluded that BL's actions of placing materials in the trash waived any claim of confidentiality over the disposed of documents. *See* Order Nos. 38, 49, 72, and 77. That being said the undersigned is loath to encourage industrial espionage and other similarly borderline conduct remembering that equity empowers the trier of fact to punish conduct that may not be strictly illegal or unethical. *Precision Instruments, supra.* Equity, however, is a product of the times and going through competitors' garbage appears to be a common practice for investigators. As such, it would seem that SKF USA did not transgress equitable standards of conduct by dumpster diving.

Witness intimidation on the other hand is an extremely serious accusation, and it most certainly invites equitable punishment among other sanctions. In this case, however, Respondents failed to prove that the Gorsey letter was anything more than an unfortunate coincidence. *See* Judges Ex. 4. The undersigned views the timing of the letter to a proposed witness as an example of poor judgement particularly in light of the fact that it was generated by SKF USA's corporate counsel in the midst of trial, a trial he attended and for which it was clear that he was a prime decision-maker in Complainant's litigation strategy. Were the

letter not one of a hundred letters sent to other senior officials of MRC authorized distributors, a SKF Bearing Services sub-unit, the undersigned would have been most disenchanted. Additionally, the undersigned is no fool and perceives that $37.00 may be a cheap price to pay for intimidation. But, Respondent, when given the chance to pursue this issue, could prove no more than that SKF USA had exercised poor judgement in the timing of the letter. No evidence exists to substantiate Respondents' claim that the letter was prompted by Gorsey' s name appearing as a proposed witness for Respondents. Given the serious penalties associated with witness intimidation, Respondents must provide far more than innuendo to prove its claim.

In sum, Respondents have failed to prove that SKF USA's claims are barred under the equitable doctrine of unclean hands.

Issue VI: Injury: Whether Respondents' activities have caused or threaten to cause substantial injury to Complainant?

Complainant's Position

According to SKF USA, Respondents' sales of unauthorized SKF bearings have caused or threaten to cause substantial injury to SKF USA. Moreover, SKF USA claims that there is a causal nexus between SKF USA's enumerated injuries and Respondents' unfair acts.

- SKF USA claims that Respondents have secured substantial sales penetration in the United States using

unfair acts or methods of competition with respect to imported SKF bearings. CIB 281. As evidence of market penetration, SKF USA asserts: (1) that Respondents operate throughout the United States; (2) that Respondents' unauthorized sales of imported SKF bearings are substantial; and (3) that Respondents maintain substantial inventories and are thus poised to increase their market penetration. CIB 284.

- SKF USA claims that Respondents have sold and continue to sell SKF bearings at prices below that of SKF USA. *Id.* As evidence of price undercutting, SKF USA points to: (1) Respondents' advertised low prices; (2) Respondents' sales data; and (3) SKF USA's record of sales competition at low prices. CIB 285.

- SKF USA claims that Respondents' sales have caused and threaten to cause SKF USA to lose sales and customers. CIB 290. As evidence of lost sales and customers, SKF USA contends that Respondents' sales to SKF USA authorized distributors deprive SKF USA of identical sales on a one-to-one basis. *Id.* Respondents' direct sales to end users also deprive SKF USA authorized distributors of identical sales on a one-to-one basis, according to SKF USA. CIB 292.

- SKF USA claims that Respondents' sales have caused and threaten to cause SKF USA to suffer reduced margins on the sale of SKF bearings. As evidence of reduced margins, SKF USA claims that it has been forced by its authorized distributors to reduce operating margins so that authorized distributors can be more competitive with

gray marketers, or else authorized distributors would purchase SKF bearings from the gray market themselves. CIB 293.

- SKF USA claims that Respondents' sales of SKF bearings have disrupted and threaten to disrupt SKF USA's authorized distribution network. CIB 294. As evidence of a disrupted authorized distribution network, SKF USA asserts that competition from gray marketers has and will compel authorized distributors to purchase SKF bearings from the gray market instead of SKF USA. CIB 295. According to SKF USA, authorized distributors are vital to maintaining the distinctiveness and value of the SKF trademarks because of their investments in the SKF brand. *Id.* SKF USA claims that this will be lost if authorized distributors are forced to increasingly rely on the gray market. *Id.*

- SKF USA claims that Respondents' sales have injured and threaten to injure the reputation of SKF USA. CIB 296. As evidence of lost goodwill, SKF USA contends that its leading position in the marketplace is compromised by Respondents' sales because Respondents do not offer comparable quality and post-sale support. *Id.* According to SKF USA, purchasers of unauthorized bearings may blame SKF USA for any problems arising from Respondents' unauthorized sales. *Id.*

- SKF USA claims that Respondents' sales have diverted and threaten to divert SKF USA's management and other critical resources from ordinary business activities that

would enhance overall sales. As evidence of diverted management resources, SKF USA asserts that Respondents' sales have forced SKF USA executives to respond to gray market issues at a cost of not improving SKF USA's competitive position relative to other manufacturers. CIB 298.

According to SKF USA, an inference of causation exists because imported SKF bearings are "purchased, in the majority of instances, in substitution for their domestic counterparts" and because SKF USA does not authorize Respondents' sales. CIB 298-99. Moreover, SKF USA asserts that this inference of causation is further supported by the fact that SKF USA and Respondents sell in the same channels of commerce but with Respondents' SKF bearings generally priced dramatically lower. CIB 299. Under these circumstances, SKF USA concludes that the causal link is obvious. *Id.*

Respondent's Position

According to Respondents, SKF USA has failed to demonstrate that it has suffered current substantial injury or that it is threatened with substantial injury. Moreover, regardless of whether SKF USA has suffered or is threatened with substantial injury, Respondents contend that such injury has not been caused or is not likely to be caused by Respondents' actions.

First, Respondents claim that SKF USA has failed to provide evidence of current injury as a result of Respondents' activities. Respondents contend that SKF USA's expert on

injury made no assessment of current injury and instead focused on likely injury. RIB 256. Second, Respondents claim that SKF USA's injury expert based his vague and speculative assessment of likely injury on assertions, generalizations and anecdotes rather than on hard data. RIB 257. Moreover, Respondents claim that SKF USA's injury expert did not examine the particular threat of injury associated with the stated indicia in isolation but rather in combination. *Id.* Respondents also contend that SKF USA wrongly presumes that any threatened injury is a result of unfair competition. RIB 258.

Specifically addressing the seven injury indicia cited by SKF USA, Respondents first contend that their sales of unauthorized SKF bearings are de *minimis* rather than "substantial" given that they represent less than [ ] percent of SKF sales. RRB 153. Second, Respondents contend that SKF USA overstates the evidence of record to support its price undercutting argument. RRB 154. Third, Respondents contend that SKF USA's lost sales and customers argument is predicated on the faulty premise that a sale by one Respondent constitutes one lost sale for SKF USA. Respondents argue that SKF USA authorized distributors buy from Respondents because authorized distributors do not have the necessary bearings or are not able to obtain them in a timely manner from authorized channels. RRB 159. Also, Respondents claim that SKF USA's assertion concerning rebates to its authorized distributors is not supported by hard data in the record. RRB 160. Fourth, Respondents contend that SKF USA's reduced margins argument is compromised because there is no quantitative evidence in the record to support such a claim. RRB 162.

Specifically, Respondents argue that there is no quantitative data to support SKF USA's statements regarding rebates to authorized distributors. *Id.* Fifth, Respondent's contend that there is no evidence of record to support SKF USA's claim of disrupted distributor network. Respondents argue that there is no evidence in the record quantifying the alleged investments made by authorized distributors and thus no way to assess whether or not there is a real basis for claiming that the authorized distributors' incentive to invest in the SKF brand will diminish as a result of Respondents' activities. RRB 164. Sixth, Respondents contend that SKF USA's argument that Respondents' sales damage SKF USA's goodwill because Respondents' fail to provide post-sale support is misplaced because it has not been established that SKF USA's post-sale services are a source of goodwill. *Id.* Seventh, Respondents contend that SKF USA's provided no evidence to support its diverted management resources argument. RRB 165.

With respect to causation, Respondents contend that any injury inflicted upon SKF USA is a product of fair market arbitrage and thus is at least partly due to SKF USA's own pricing policy. RRB 165. Separately, Respondents claim that SKF USA's injury expert did not contemplate other possible causal factors such as economic climate or competing brands in his injury assessment. In sum, Respondents conclude that if SKF USA is threatened with injury, it is has not been proven that it is as a result of Respondents' sales of SKF bearings.

Appendix C

Commission Investigative Staff's Position

Staff is of the opinion that while SKF USA's expert did not provide evidence to support a claim of actual substantial injury, there is sufficient evidence to conclude that a likelihood of future substantial injury exists. SIB 99. In support of its conclusion, Staff asserts: (1) that imported SKF bearings have a distinct cost advantage over domestic SKF bearings; (2) that imported SKF bearings undersell domestic SKF bearings; and (3) that there are many sources of supply that attempt to sell into the United States market. *Id.* Moreover, Staff relies on testimony from SKF USA's injury expert who, Staff claims, found evidence of lost sales, lower prices and profits, loss of goodwill to SKF USA, and adverse effects on SKF USA's authorized distributor network. SIB 100. Based on a combination of these indicia, Staff concludes that there is at least a conceivable loss of sales to SKF USA amounting to hundred of thousands if not millions of dollars. *Id.*

Discussion, Analysis, and Conclusion

As it applies to common law trademark infringement and false designation of source, the two unfair competition claims found to exist *supra*, to prevail SKF USA must further show that an economic injury "the threat or effect of which is to destroy or substantially injure an industry in the United States" arises. *See* 19 U.S.C. § 1337(a)(1)(A)(i). Injury may be demonstrated by proof that Respondents maintain a significant share of the domestic market or have made significant sales of the accused product in the United States. Bar *Clamps*, *supra*, Initial Determination at 85; *Certain*

Electric Power Tools, Battery Cartridges, and Battery Chargers, Inv. No. 337-TA-284, U.S.I.T.C. Pub. No. 2389, (Unreviewed) Initial Determination at 246 (1990) (*"Power* Tools"); see *also Textron, Inc. v. U.S. International Trade Comm.*, 753 F.2d 1019, 1029 (Fed. Cir. 1985). In addition, there must also be proof of a nexus between the Respondents' unfair acts and the injury to SKF USA's domestic industry. *See Bar Clamps, supra*, Initial Determination at 85; *Power Tools, supra*, Initial Determination at 246.

In practice, the Commission has considered a "broad range of indicia" to determine whether unfair acts and methods of competition have the effect of substantially injuring a domestic industry, including a respondent's volume of imports and penetration into the market, the complainant's lost sales, underselling by the respondent, and the complainant's declining production, profitability and sales. *See Bar Clamps, supra*, Initial Determination at 85; *Power Tools, supra*, Initial Determination at 246. The injury requirement can also be met "[w]hen an assessment of the market in the presence of the accused imported products demonstrates relevant conditions or circumstances from which probable future injury can be inferred." *Power Tools, supra*, Initial Determination at 248. Such circumstances may include foreign cost advantages and production capacity, the ability of the imported product to undersell the domestic product, or substantial foreign manufacturing capacity combined with the respondent's intention to penetrate the United States market. *Bar Clamps, supra*, Initial Determination at 85-86; *Power Tools, supra*, Initial Determination at 248.

Appendix C

At the outset, it must be determined whether the accused sales of settling Respondents and defaulting Respondents should be made part of the calculation. Given the number of Respondents that chose to settle or default here,[56] one can legitimately infer that any injury caused by remaining Respondents is likely an underestimation. *See Bally/Midway Mfg. Co. v. U.S. Intern. Trade Com'n*, 714 F.2d 1117, 1124 (Fed. Cir. 1983) (holding that "the Commission drew an inference in favor of Bally that the number of lost Pac-Man sales indicated by the record is 'an underestimation' because of 'the multiplicity of defaulting respondents and the popularity of the game . . .' There is no reason why a similar inference should not be drawn in the case of the Rally-X games."). Moreover, there is credible evidence of record relating to sales of SKF bearings by settling and defaulting Respondents. In sum, when possible, accused sales of settling and defaulting Respondents are used to calculate actual or threatened injury.

The evidence of record supports the claim that Respondents' sales of unauthorized SKF bearings, at a minimum, threaten SKF USA with substantial injury. Addressing the injury indicia in *seriatim*, the uncontested evidence demonstrates that Respondents have secured substantial market penetration. Specifically, the evidence of record shows that since about 1997, unauthorized sales by

---

56. Six Respondents settled (BMS, Ringball, Bearing Distributors, Creswell, Gulf, and RitBearing) and four Respondents defaulted (Motor Bearings, RIRSA, Wolters, and Seal Pack). *See* Procedural History/Rulings, *supra*.

eight Respondents amounted to $[ ][57] and it is an almost certainty that this figure underestimates total gray market sales by all Respondents. *See* Kaplan, Tr. 1814:21-1816:24; CX-2468.1 C; **FF 364**. Although this figure may represent a small percentage of SKF USA's total sales, it is only a baseline figure. In any case, the relevant question when assessing the magnitude of accused sales is not whether such sales are significant relative to the sales of the complainant, as Respondents argue, but whether such sales are significant or constitute a significant share of the domestic market. *See Textron. Inc. v. U.S. Intern. Trade Com'n*, 753 F.2d 1019, 1024 (Fed. Cir. 1985) ("[T]he domestic industry must normally establish that the infringer holds, or threatens to hold, a significant share of the domestic market in the covered articles *or has made a significant amount of sales of the articles.*" (emphasis added)). It is reasonable to conclude that nearly $[ ] dollars worth of SKF bearings constitutes a "significant amount of sales of the articles." Lastly, it is uncontested that Respondents operate throughout the United States and that in some cases maintain large inventories. *See* Kaplan, Tr. 1814:23-1815:11; CX-2488C; CX-2570C; CX-1522C; CX-2468.1C; **FF 366**. In sum, the evidence of record shows that Respondents significantly penetrated the U.S. market and are in a position to continue to do so.

SKF USA also provides credible evidence that certain Respondents have engaged in price undercutting. Specifically, SKF USA cites price quotes included in advertising materials distributed by BL, Gulf, and CST. For

---

57. For Respondents McGuire, BL, CST, and Bohls the figure is $[ ]. *See* Kaplan, Tr. 1 817:2-11; CX-2468.1C; **FF 365**.

example, BL advertised prices of up to 30% below SKF USA's industrial distributor price (IDP). *See* Kaplan, Tr. 1834:8-1835:7; CX-18.1C; **FF 367**. CST advertised discounts on SKF products up to 60% off IDP. *See* Kaplan, Tr. 1829:22-1830:14; CX-1058C; CX-2397C; CX-2399C; CX-203; **FF 368**. Gulf advertised discounts as much as 62% below IDP. *Compare* SX-12 at GULF005755, SX-4C at SKF062011 Part # 7316577116321; SX-12 at GULF005764, SX-4C SKF061841 Part # 7316576618970; **FF 369**. While it is true that SKF USA is known to offer discounts to SKF USA authorized distributors, the evidence of record shows that the figure is generally [ ]% below IDP. *See* Kaplan, Tr. 1835:9-1835:15; Clark, Tr. 1339:21-1340:2; **FF 370**. Respondents contend that SKF USA should have presented price comparisons based on actual sales, which Respondents contend would not have supported SKF USA's price undercutting argument. RRB 157. However, SKF USA has made an adequate showing that Respondents have advertised prices significantly below that charged by SKF USA, even when including SKF USA's discount to its authorized distributors. Respondents speculate that better evidence would disprove this finding, but it is for Respondents to rebut credible evidence with credible evidence and not speculation. Taken out of order, SKF USA's separate assertion concerning reduced margins suffers from the same affliction. SKF USA states that AIT coerced additional rebates after threatening to go to the gray market for SKF bearings but provides little probative information regarding the size of the rebate or how often it has been used to dissuade AIT from accepting unauthorized offers. *See* Kaplan, Tr. 1832:12-19; Clark Tr. 1339:21-1640:2. In sum, the evidence of record shows that Respondents have engaged in price undercutting, but there is no proof to support the claim of reduced margins.

SKF USA's evidence of lost sales and customers is more equivocal. SKF USA asserts that sales to the three largest SKF authorized distributors by three Respondents from about 1997 to 2002 totaled $[ ]. *See* CX-72C; CX-412C; CX-1522C; CX-2487C; CX-2488C; CX-2570C; CX-2702C; RX-7006; **FF 371**. SKF USA's argument, moreover, is predicated on the belief that a sale to an authorized distributor by Respondents or a sale to an end user by Respondents means one less sale by SKF USA and SKF USA authorized distributors respectively. However, SKF USA's expert testified:

> JUDGE TERRILL: Obviously it's not a one-to-one correlation, is there, between each dollar sold by CST of SKF product to a lost sale by SKF of same dollar?
>
> THE WITNESS: Absolutely, Your Honor. I'm not suggesting there is a one-to-one relation.

Kaplan Tr. 1818:14-18; **FF 372**. As a matter of economics, this may be the correct answer, particularly as it applies to end users. As applied to SKF USA authorized distributors, however, there is almost certainly a much stronger one-to-one correlation because SKF USA authorized distributors are contractually obligated to purchase SKF bearings directly from SKF USA. *See* RX-0057C. This strongly suggests that the over $[ ] worth of bearings sold to SKF USA authorized distributors by Respondents deprived SKF USA of an equal amount of sales. Respondents contest this finding by arguing that such sales only occur because SKF USA authorized distributors are unable to get SKF bearings from SKF USA when they need them or because Respondents'

sales of SKF bearings are at the expense of competing brands. RRB 159. The evidence of record pertaining to availability is inconsistent. *See* Kaplan, Tr. 1892:12-1893:14. The evidence cited by Respondents at best supports the contention that Respondents' sales to end users is sometimes the result of availability, but the evidence does not indicate that SKF USA authorized distributors have purchased from Respondents because of an inability to get SKF bearings from SKF USA. *See* Bohls, Tr. 3528:23-3529:1; Kellogg, Tr. 1684:6-1687:13. With respect to competing brands, beyond a single anecdote, there is simply no evidence to support the conclusion that Respondents' sales of SKF bearings are at the expense of competing brands.[58] *See* Magray, Tr. 4958:19-

---

58. The only evidence to support this claim was Magray's testimony that [

]. It should be noted, however, that Magray was non-committal about whether it was BL's increased supply of SKF bearings that heightened consumer demand or vice-versa:

> JUDGE TERRILL: I am just trying to understand if there was anything that Bearings Limited did that made that break-even point happen and [ ] were the same —
>
> THE WITNESS: Whether they flip-flopped?
>
> JUDGE TERRILL: Right. If there was a marketing or promotional thing that you did that made that happen.
>
> THE WITNESS: I don't know that — you know, is the cart before the horse? [
>
>] Let me phrase it that way.
>
> * * *

(Cont'd)

4959:15. In sum, there is credible evidence that SKF USA has at least lost sales to SKF USA authorized distributors because of Respondents.

SKF USA's remaining claims of a disrupted distribution network, damage to goodwill, and diverted management resources are largely unquantifiable and not strictly supported by the record.

In any case, the evidence of market penetration, lost sales, and price cutting is sufficient to prove at least a threat of injury to SKF USA, provided that there is causal nexus between the threat and the forms of unfair competition found to exist *supra*. The relevant question is whether SKF USA is threatened with injury because of common law trademark infringement and false designation of origin attributed to Respondents. In the absence of evidence of superseding causes, it appears that the threatened injury to SKF USA is as a result of unfair competition by Respondents. It has been established that Respondents have secured market penetration; that Respondents have engaged in price undercutting; and that Respondents' activities have caused SKF USA lost sales. It has also been determined that there is a likelihood of confusion between authorized and unauthorized

(Cont'd)

> Q: Okay. And those sources, on the demand side, has the demand for SKF bearing gone up?
>
> A: Well, much of our business is repeat. So, you know, if I sell an SKF bearing today, the likelihood is I am going to have demand for it tomorrow. So the answer is absolutely.

Magray, Tr. 4958:14-4959:1, 4960:5-4960:10; **FF 373**.

SKF bearings, which further gives rise to a finding of false designation of origin. Respondents argue that SKF USA's threatened injuries are a result of arbitrage and the current economic climate rather than because of Respondents' unfair competition. However, Respondents do not provide any evidence to support those theories. Thus, the conclusion is that Respondents' unfair acts and methods of competition alone are the causal factors threatening SKF USA with substantial injury.

* * *

CONCLUSIONS OF LAW

1. The Commission has subject matter jurisdiction in this investigation.

2. The Commission has personal jurisdiction over the Respondents.

3. Respondents' importation into the United States, sale for importation, and sale within the United States after importation of certain bearings and packaging thereof infringe U.S. Trademark Registration Nos. 502,839; 502,840; 1,944,843 and 2,053,722 in violation of 15 U.S.C. § 1114(1)(a).

4. Respondents' importation into the United States, sale for importation, and sale within the United States after importation of certain bearings and packaging thereof infringe Complainant's common-law trademarks in the aforementioned registered trademarks.

5. Respondents' importation into the United States, sale for importation, and sale within the United States after importation of certain bearings and packaging thereof constitute false designation of origin, in violation of 15 U.S.C. § 1125(a)(1)(A).

6. An industry in the United States exists in connection with Complainant's bearings and packaging thereof that is protected by U.S. Trademark Registration Nos. 502,839; 502,840; 1,944,843 and 2,053,722, pursuant to 19 U.S.C. §§ 1337 (a)(2) and (3).

7. The threat or effect of Respondents' importation into the United States, sale for importation, and sale within the United States after importation of certain bearings and packaging thereof is to substantially injure an industry in the United States, pursuant to 19 U.S.C. § 1337(a)(1)(A)(i).

8. Notwithstanding the foregoing, Respondents Bohls, Bearings Limited and CST have not violated Section 337 in connection with any bearings and packaging thereof in inventory to which the foregoing trademarks are affixed that said Respondents acquired on or before March 11, 2002, by reason of laches on the part of Complainant.

9. Notwithstanding the foregoing, Respondent McGuire has not violated Section 337 in connection with any bearings and packaging thereof in inventory to which the foregoing trademarks are affixed that McGuire acquired on or before January 10, 2001.

10. There is a violation of Section 337 on the part of the Respondents to the extent set forth above.

* * *

Pursuant to 19 C.F.R. § 210.38(d), the record in this investigation is hereby certified to the Commission. The final exhibit lists of the parties and the Staff are appended hereto.

Pursuant to 19 C.F.R. § 210.42(h), this Initial Determination shall become the determination of the Commission unless a party files a petition for review of the Initial Determination pursuant to 19 C.F.R. § 210.43(a), or the Commission, pursuant to 19 C.F.R. § 210.44, orders on its own motion a review of the Initial Determination or certain issues herein.

RECOMMENDED DETERMINATION ON REMEDY AND BONDING

General or Limited Exclusion Order

If a violation of Section 337 is found, the Commission must determine whether a general exclusion order is warranted instead of a limited exclusion order against the products of the named respondents. In this investigation, SKF USA seeks a general exclusion order. CIB 296-307.

Section 337(d)(2) authorizes the Commission to issue a general exclusion order only if it determines that —

> (A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or
>
> (B) there is a pattern of violation of this section and it is difficult to identify the source of infringing products.

19 U.S.C. § 1337(d)(2); 19 C.F.R. § 210.50(c). These statutory criteria for a general exclusion order parallel the factors that were followed by the Commission in the past, which requires a complainant to prove "a widespread pattern of unauthorized use" and "certain business conditions from which one might reasonably infer that foreign manufacturers other than the respondents to the investigation may attempt to enter the U.S. market with infringing articles." *Certain Airless Spray Pumps*, Inv. No. 337-TA-90, U.S.I.T.C. Pub. No. 1199 (Nov. 1981), Commission Opinion at 18-19 (U.S.I.T.C., Nov. 24, 1981) ("*Spray Pumps*"). The *Spray Pumps* factors have been applied by the Commission in investigations involving gray market imports. *See Tractors*, *supra*, Commission Opinion at 26-28; *Cigarettes*, *supra*, Commission Opinion at 10-11.

In *Spray Pumps*, the Commission listed the following factors as relevant to showing a "widespread pattern of unauthorized use":

> (1) Commission determination of unauthorized importation of the infringing article into the United States by numerous foreign manufacturers; or

(2) the pendency of foreign infringement suits based on foreign patents corresponding to the U.S. patent; [or]

(3) other evidence which demonstrates a history of unauthorized foreign use of the patented invention.

In addition, the Commission listed the following factors as relevant to showing whether "certain business conditions" exist:

(1) the existence of an established demand for the article in the U.S. market and conditions of the world market;

(2) the availability to foreign manufacturers of U.S. marketing and distribution networks;

(3) the cost for foreign entrepreneurs to build a facility that can produce the patented articles;

(4) the number of foreign manufacturers whose facilities could be converted to manufacture the patented article; and

(5) the foreign manufacturers' cost to convert a facility to produce the patented articles.

With respect to a "widespread pattern of unauthorized use," the evidence of record in this investigation shows a

longstanding, half-century history of unauthorized gray market activity in the importation of foreign-manufactured SKF bearings. As for "certain business conditions," there is an established demand for SKF bearings and large numbers of foreign companies willing to supply SKF bearings into the United States gray market. Marketing and distribution networks are well entrenched in the United States, and large amounts of such bearings can be imported and stored in inventory at very little cost. Moreover, as explained in the Initial Determination at Section V.A. above, the existence of significant price differentials for SKF bearings between the U.S. market and foreign markets as a result of antidumping duties creates an incentive for arbitrage that is relatively easy for any gray marketer to exploit. Thus, the *Spray Pumps* conditions are satisfied, and a general exclusion order is appropriate.

Scope of Exclusion from Entry

If a violation of Section 337 is found, the exclusion order should be directed to the exclusion of bearings and packaging thereof from entry into the United States for consumption only. No request has been made by SKF USA to exclude any downstream products that contain such bearings or any upstream components of bearings. A broader scope than entry for consumption is permitted only when specifically requested by the complainant and the need for such scope is demonstrated by evidence "that activities by respondents involving other types of entry either are adversely affecting it or are likely to do so." *See Certain Devices for Connecting Computers Via Telephone Lines*, Inv. No. 337-TA-360, U.S.I.T.C. Pub. No. 2843, Commission Opinion at 10, 1994

WL 932382 (U.S.I.T.C., December 1994). A broader scope has not been requested by SKF USA, and therefore an exclusion order directed toward entry for consumption only is sufficient.

Cease and Desist Order

In order to demonstrate that a cease and desist order is warranted, a complainant must demonstrate that the respondent has a commercially significant inventory in the United States. *See Certain EPROM, EEPROM, Flash Memory, and Flash Microcontroller Semiconductor Devices, and Products Containing Same*, Inv. No. 337-TA-395, U.S.I.T.C. Pub. No. 3392, Commission Opinion at 85, 2001 WL 242553 (U.S.I.T.C., October 16, 2000).

As set forth in the Initial Determination, Respondents have significant amounts of SKF bearings in inventory in the United States. Accordingly, cease and desist orders against Respondents are warranted. However, in view of the impact of SKF USA's delay in filing suit against Respondents, justifying in part Respondents' defense of laches, any cease and desist order issued against Respondents BL, Bohls and CST should allow them to sell off any inventory of SKF bearings that they acquired on or before March 11, 2002, the date of SKF's filing of the complaint in this investigation. Further, in view of the ripening of SKF USA's cause of action against McGuire only recently after the termination of its MRC distributorship on January 10, 2001, any cease and desist order issued against McGuire should allow it to sell off any inventory of SKF bearings that it acquired on or before that date.

Appendix C

Bonding During Presidential Review Period

If the Commission enters an exclusion order or cease and desist order, parties may continue to import and sell their products during the pendency of the Presidential review under a bond in an amount determined by the Commission to be "sufficient to protect the Complainants from any injury." 19 U.S.C. § 1337(e); 19 C.F.R. § 210.50(a)(3).

In this instance, SKF and Staff request a 100 percent bond. CIB 317; SIB 108. Respondents contend that no bond or a minimal bond should be set, without stating a specific amount. RIB 272-75. In view of the thousands of bearing products that the parties sell, all of which have a myriad array of prices and price differentials between authorized and unauthorized products, it would be impossible for the Commission to determine an appropriate bond on the basis of a price differential. Moreover, since the trademark infringement in this case is based upon different channels of distribution that are themselves either "authorized" or "unauthorized," there is no "reasonable royalty rate" that can be devised as a way to derive an appropriate bond level. Given such circumstances, the Commission has held in the past that a 100 percent bond is appropriate. *See, e.g., Certain Variable Speed Wind Turbines and Components Thereof*, Inv. No. 337-TA-376, Commission Opinion at 27-28 and 40 (September 23, 1996). It is, therefore, recommended here.

* * *

Appendix C

Within seven days of the date of this document, each party shall submit to the office of the Administrative Law Judge a statement as to whether or not it seeks to have any portion of this document deleted from the public version. The parties' submissions may be made by facsimile and/or hard copy by the aforementioned date.

Any party seeking to have any portion of this document deleted from the public version thereof must submit to this office a copy of this document with red brackets indicating any portion asserted to contain confidential business information. The parties' submissions concerning the public version of this document need not be filed with the Commission Secretary.

SO ORDERED.

s/ Delbert R. Terrill, Jr.
Delbert R. Terrill, Jr.
Administrative Law Judge

Washington, D.C.

APPENDIX D — ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DENYING PETITION FOR REHEARING DATED DECEMBER 23, 2005

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

04-1460

SKF USA INC.,

Appellant,

v.

INTERNATIONAL TRADE COMMISSION,

Appellee,

and

BEARINGS LIMITED,

Intervenor,

and

McGUIRE BEARING COMPANY,

Intervenor.

Appendix D

ORDER

A petition for rehearing en banc having been filed by the APPELLANT, and a response thereto having been invited by the court and filed by the APPELLEE*, and the matter having first been referred as a petition for rehearing to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on December 30, 2005.

FOR THE COURT,

s/ Jan Horbaly
Jan Horbaly
Clerk

Dated: December 23, 2005

* The Intervenors also filed a response.

APPENDIX E — RELEVANT STATUTES

UNITED STATES CODE

TITLE 19. CUSTOMS DUTIES
CHAPTER 4. TARIFF ACT OF 1930
SPECIAL PROVISIONS
UNITED STATES INTERNATIONAL TRADE COMMISSION

19 USCS § 1337

§ 1337. Unfair practices in import trade

(a) Unfair methods of competition declared unlawful.

(1) Subject to paragraph (2), the following are unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provision of law, as provided in this section:

(A) Unfair methods of competition and unfair acts in the importation of articles (other than articles provided for in subparagraphs (B), (C), (D), and (E)) into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is—

(i) to destroy or substantially injure an industry in the United States;

(ii) to prevent the establishment of such an industry; or

(iii) to restrain or monopolize trade and commerce in the United States.

(B) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that—

(i) infringe a valid and enforceable United States patent or a valid and enforceable United States copyright registered under title 17, United States Code; or

(ii) are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.

(C) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946.

(D) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of a semiconductor chip product in a manner that constitutes infringement of a mask work registered under chapter 9 of title 17, United States Code [17 USCS §§ 901 et seq.].

(E) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consigner, of an article

that constitutes infringement of the exclusive rights in a design protected under chapter 13 of title 17, United States Code [17 USCS § § 1301 et seq.].

(2) Subparagraphs (B), (C), (D), and (E) of paragraph (1) apply only if an industry in the United States, relating to the articles protected by the patent, copyright, trademark, mask work, or design concerned, exists or is in the process of being established.

(3) For purposes of paragraph (2), an industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent, copyright, trademark, mask work, or design concerned—

(A) significant investment in plant and equipment;

(B) significant employment of labor or capital; or

(C) substantial investment in its exploitation, including engineering, research and development, or licensing.

(4) For the purposes of this section, the phrase "owner, importer, or consignee" includes any agent of the owner, importer, or consignee.

Appendix E

UNITED STATES CODE

TITLE 15. COMMERCE AND TRADE
CHAPTER 22. TRADEMARKS
GENERAL PROVISIONS

15 USCS § 1125

§ 1125. False designations of origin and false descriptions forbidden

(a) Civil action.

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

Appendix E

UNITED STATES CODE

TITLE 15. COMMERCE AND TRADE
CHAPTER 22. TRADEMARKS
GENERAL PROVISIONS

15 USCS § 1114

§ 1114. Remedies; infringement; innocent infringment by printers and publishers

(1) Any person who shall, without the consent of the registrant—

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive,

shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) hereof,

the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

(5)

FILED
MAY 26 2006
OFFICE OF THE CLERK
SUPREME COURT, U.S.

No. 05-1236

In the Supreme Court of the United States

SKF USA INC., PETITIONER

v.

INTERNATIONAL TRADE COMMISSION, ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE FEDERAL RESPONDENT IN OPPOSITION

PAUL D. CLEMENT
Solicitor General
Counsel of Record
Department of Justice
Washington, D.C. 20530-0001
(202) 514-2217

JAMES M. LYONS
General Counsel

NEAL J. REYNOLDS
Assistant General Counsel for Litigation

WAYNE W. HERRINGTON
Attorney
Office of the General Counsel
United States International Trade Commission
Washington, D.C. 20436

QUESTION PRESENTED

Whether a trademark owner alleging gray market infringement must establish that all or substantially all of the marked goods it has authorized for sale domestically possess the characteristic it relies on to show a material difference between its goods and the gray market goods.

TABLE OF CONTENTS

	Page
Opinions below	1
Jurisdiction	1
Statement	2
Argument	5
Conclusion	13

TABLE OF AUTHORITIES

Cases:

American Circuit Breaker Corp. v. *Oregon Breakers Inc.*, 406 F.3d 577 (9th Cir. 2005) 6, 9

Davidoff & CIE, S.A. v. *PLD Int'l Corp.*, 263 F.3d 1297 (11th Cir. 2001) 6, 9

El Greco Leather Prods. Co. v. *Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986), cert. denied, 484 U.S. 817 (1987) 10

Gamut Trading Co. v. *United States Int'l Trade Comm'n*, 200 F.3d 775 (Fed. Cir. 1999) 2, 3, 6, 9

Iberia Foods Corp. v. *Romeo*, 150 F.3d 298 (3d Cir. 1998) 9, 10, 11

Martin's Herend Imports, Inc. v. *Diamond & Gem Trading USA, Co.*, 112 F.3d 1296 (5th Cir. 1997) 6, 8, 10

Original Appalachian Artworks, Inc. v. *Granada Elecs., Inc.*, 816 F.2d 68 (2d Cir.), cert. denied, 484 U.S. 847 (1987) 6, 9

Shell Oil Co. v. *Commercial Petroleum, Inc.*, 928 F.2d 104 (4th Cir. 1991) 10, 11

Societe Des Produits Nestle, S.A. v. *Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992) 5, 9, 10

Case—Continued: Page

Warner-Lambert Co. v. *Northside Dev. Co.*,
86 F.3d 3 (2d Cir. 1996) 11, 12

Statutes and regulations:

Tariff Act of 1930, 19 U.S.C. 1304 *et seq.*:
19 U.S.C. 1337 (§ 337) 2, 3, 4
19 U.S.C. 1337(a)(1)(C) 2
19 U.S.C. 1337(b) 2
19 U.S.C. 1337(b)-(c) 2
19 U.S.C. 1337(c) 3
19 U.S.C. 1337(d) 2
19 U.S.C. 1337(f) 2
19 U.S.C. 1337(j) 2
19 U.S.C. 1337(j)(4) 3
28 U.S.C. 1295(a)(4)(A)(6) 3
19 C.F.R.:
Section 210.3 2
Section 210.42-210.46 2
Section 210.45(c) 2

In the Supreme Court of the United States

No. 05-1236

SKF USA INC., PETITIONER

v.

INTERNATIONAL TRADE COMMISSION, ET AL.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE FEDERAL RESPONDENT IN OPPOSITION

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-23a) is reported at 423 F.3d 1307. The opinion of the International Trade Commission (Pet. App. 24a-120a) is *available at* 2004 WL 1598763. The initial determination of the administrative law judge (ALJ) (Pet. App. 121a-522a) is *available at* 2003 WL 21056379. The ALJ's additional findings of fact are *available at* 2003 WL 23314765.

JURISDICTION

The judgment of the court of appeals was entered on September 14, 2005. A petition for rehearing was denied on December 23, 2005 (Pet. App. 523a-524a). The petition for

a writ of certiorari was filed on March 23, 2006. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. The International Trade Commission (Commission) is charged with enforcing certain import trade laws, including Section 337 of the Tariff Act of 1930, 19 U.S.C. 1337. Section 337 prohibits unfair trade practices, including trademark infringement. 19 U.S.C. 1337(a)(1)(C). One form of trademark infringement is "gray market" trademark infringement. Gray market goods bear a trademark that was lawfully affixed abroad, but are imported into the United States without the consent of the trademark owner. *Gamut Trading Co.* v. *United States Int'l Trade Comm'n*, 200 F.3d 775, 778 (Fed. Cir. 1999).

Section 337 proceedings are conducted on the record under the Administrative Procedure Act. 19 U.S.C. 1337(b)-(c). There are usually three parties to a proceeding: the complainant, one or more respondents, and a Commission investigative attorney. 19 U.S.C. 1337(b); 19 C.F.R. 210.3.

After instituting a Section 337 investigation, the Commission assigns one of its ALJs to preside over discovery, conduct an evidentiary hearing, and issue an initial determination on whether Section 337 has been violated. The ALJ's initial determination is subject to review by the Commission. 19 C.F.R. 210.42-210.46. The Commission issues a final determination on whether Section 337 has been violated. 19 C.F.R. 210.45(c).

If the Commission finds that Section 337 has been violated, it may issue a remedial order. 19 U.S.C. 1337(d) and (f). That order is subject to Presidential review and possible disapproval for policy reasons. 19 U.S.C. 1337(j). At the conclusion of the Presidential review period (and as-

suming no Presidential disapproval), the Commission's determination becomes final for purposes of appeal. 19 U.S.C. 1337(j)(4). If the Commission finds that Section 337 has not been violated, there is no Presidential review, and the Commission's determination is immediately appealable. Appeal is to the United States Court of Appeals for the Federal Circuit. 19 U.S.C. 1337(c); 28 U.S.C. 1295(a)(4)(A)(6).

2. Petitioner SKF USA, Inc. produces SKF-marked bearings in the United States and also imports such bearings from a foreign affiliate, SKF Manufacturing Units. Pet. App. 2a. Petitioner sells bearings in the United States through a network of distributors. *Id.* at 2a-3a.

In April 2002, petitioner filed a complaint with the Commission against 14 respondents, alleging, *inter alia*, that respondents had engaged in trademark infringement. Pet. App. 3a. In April 2003, an ALJ issued an initial determination finding that four of the respondents—Bohls Bearing and Transmission Service, CST Bearing Company, Bearings Limited, and McGuire Bearings Company—had violated Section 337 through, *inter alia*, gray market infringement of petitioner's trademark. *Id.* at 3a-5a.

In finding gray market infringement, the ALJ applied the standard set forth by the Federal Circuit in *Gamut*. Pet. App. 4a. In *Gamut*, the court held that the fundamental inquiry in gray market cases is "whether there are differences between the foreign and domestic product and if so whether the differences are material." 200 F.3d at 779. The ALJ also found that there were no physical differences between the bearings sold or authorized for sale by petitioner and those imported and sold by respondents. Pet. App. 4a. The ALJ also found, however, that there were material differences in post-sale technical services, particularly on-site services and hot-line support. *Id.* at 4a-5a.

3. Petitioner, the four respondents, and the Commission's investigative attorney filed petitions for review. Pet. App. 5a. Upon review, the Commission determined that additional information was necessary to resolve the issues before it, and it therefore remanded the case to the ALJ for further fact finding. *Ibid.* On December 30, 2003, the ALJ completed his fact finding and the case was returned to the Commission. *Id.* at 6a, 29a.

As relevant here, the Commission reversed the ALJ's finding of a material difference and found that there was no violation of Section 337. Pet. App. 6a-9a. The Commission determined that a trademark owner alleging gray market infringement must show that all or substantially all of its marked goods are accompanied by the characteristic that is alleged to be a material difference. *Id.* at 7a-8a. The Commission found that petitioner failed to make that showing. *Id.* at 71a-96a.

4. The court of appeals affirmed. Pet. App. 1a-23a. The court first held that physical differences are not required in order to establish gray market trademark infringement. *Id.* at 10a. The court explained that because trademarked goods may have certain services associated with them, similar goods lacking those services may mislead the consumer and damage the owner's goodwill. *Ibid.*

The court of appeals next held that "a plaintiff in a gray market trademark infringement case must establish that all or substantially all of its sales are accompanied by the asserted material difference in order to show that its goods are materially different." Pet. App. 16a. The court reasoned that "[i]f less than all or substantially all of a trademark owner's products possess the material difference, then the trademark owner has placed into the stream of commerce a substantial quantity of goods that are or may be the same or similar to those of the importer, and then

there is no material difference." *Ibid.* The court added that "[t]o permit recovery by a trademark owner when less than 'substantially all' of its goods bear the material difference from the gray goods * * * would allow the owner itself to contribute to the confusion by consumers that it accuses gray market importers of creating." *Id.* at 17a.

The court of appeals affirmed the Commission's findings relating to the amount of petitioner's sales that lacked post-sale services. Pet. App. 20a-22a. The court concluded that substantial evidence supported the Commission's findings that Chicago Rawhide's on-site technical services were available only on a discretionary basis, *id.* at 20a-21a, that Roller Bearing Company/Tyson Bearing Company provided its own technical services that were not equivalent to petitioner's, *id.* at 21a, and that petitioner had authorized the sale of marked bearings by nonauthorized distributors, gray market distributors, surplus distributors, and RBC/Tyson that were not consistently accompanied by post-sale technical services, *id.* at 21a-22a.

ARGUMENT

The court of appeals correctly held that a plaintiff in a gray market infringement case must show that all or substantially all of its authorized sales are accompanied by the difference that is asserted to be material. The only other circuit that has addressed the question has adopted a standard that is less favorable to petitioner. Further review is therefore not warranted.

1. A plaintiff in a gray goods infringement case must show that there is a material difference between the gray products that are imported without the trademark owner's consent and the products that the owner has authorized for sale in the United States. Numerous courts of appeals have reached that conclusion. See *Societe Des Produits Nestle*,

S.A. v. *Casa Helvetia, Inc.*, 982 F.2d 633, 640 (1st Cir. 1992); *Original Appalachian Artworks, Inc.* v. *Granada Elecs., Inc.*, 816 F.2d 68, 72-73 (2d Cir.), cert. denied, 484 U.S. 847 (1987); *Martin's Herend Imports, Inc.* v. *Diamond & Gem Trading USA, Co.*, 112 F.3d 1296 (5th Cir. 1997); *American Circuit Breaker Corp.* v. *Oregon Breakers Inc.*, 406 F.3d 577, 585 (9th Cir. 2005); *Davidoff & CIE, S.A.* v. *PLD Int'l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001); *Gamut Trading Co.* v. *United States Int'l Trade Comm'n*, 200 F.3d 775 (Fed. Cir. 1999). Indeed, petitioner does not take issue with that requirement.

The requirement that a gray market plaintiff must show that all or substantially of its sales are accompanied by the asserted material difference implements the material difference requirement. As the court of appeals explained, "[i]f less than all or substantially all of a trademark owner's products possess the material difference, then the trademark owner has placed into the stream of commerce a substantial quantity of goods that are or may be the same or similar to those of the importer, and then there is no material difference." Pet. App. 16a.

The "all or substantially all" standard is also consistent with the purposes that underlie protection against gray market infringement. The prohibition against gray market infringement reflects a recognition that consumers will likely be confused by products that bear the same mark, but that possess materially different characteristics. *Gamut*, 200 F.3d at 779. When goods sold by the trademark owner themselves lack the asserted material difference, the owner has no basis for complaining about the resulting confusion. As the court of appeals in this case explained, "[t]o permit recovery by a trademark owner when less than 'substantially all' of its goods bear the material difference from the gray goods * * * would allow the owner itself to contribute

to the confusion by consumers that it accuses the gray market importers of creating." Pet. App. 17a.

Petitioner does not appear to suggest that it is entitled to protection against gray market imports, no matter how many of the same products it introduces into the domestic market. Rather, it contends (Pet. 13) that the court of appeals adopted a standard that provides insufficient protection against gray market infringement because the court's standard requires a plaintiff to show that all but one of its authorized goods contain the alleged material difference. That contention rests on a mischaracterization of the court of appeals' decision. The court stated that a single sale of a nonconforming item would not typically defeat a trademark owner's gray market claim. Pet. App. 19a. But it did not state that more than one sale of a nonconforming good would defeat such a claim. To the contrary, the court stated that its standard would "certainly permit[] a small amount of nonconforming goods." *Ibid.* And elsewhere in its opinion, the court made clear that its standard would not be violated unless the trademark owner had "placed into the stream of a commerce a substantial quantity of [nonconforming] goods." *Id.* at 16a.

In this case, for example, petitioner failed to prevail on its gray market claim not because it authorized the sale of more than a single nonconforming good, but because at least 2.6% of its authorized sales were of nonconforming goods. See Pet. App. 14a. Given the vast quantity of bearings that petitioner sells, it was reasonable for the Commission and the court of appeals to conclude that petitioner had placed into the stream of commerce a substantial quantity of nonconforming goods. In any event, that fact-bound question does not warrant review.

2. Petitioner contends (Pet. 10-13) that the court of appeals' "all or substantially all" standard conflicts with the